

Audit Evidence & Risk Response (AE&RR) – Cover Note and Feedback

Objectives:

The objectives of the IAASB discussion in September 2025 are to:

- (a) Provide an overview of the key insights and feedback from the project outreach undertaken to date with a broad range of stakeholders.
- (b) Obtain the Board's input on Staff's views and recommendations for addressing selected topics on AE&RR.

Approach to the Board Discussion:

During the September 2025 IAASB meeting, Staff will provide an overview of the project outreach activities undertaken to date and the key insights and messages received from the stakeholder feedback presented in this paper for certain topics being considered by the project. Board members will be asked for their reflections on the feedback, as well as any views on the project outreach activities and the consideration of the feedback.

Following the session on the project outreach, Staff will introduce the topics on AE&RR discussed in **Agenda Items 9–A to 9–H** that will be subject to the Board's input and views during the September 2025 IAASB meeting. Each topic will be separately introduced and discussed.

Introduction

Background

1. At the June 2025 IAASB meeting, the Board discussed several key issues and related actions¹ from the AE&RR [project proposal](#) relevant to the concurrent revision of ISA 330,² ISA 500,³ and ISA 520⁴ ('in-scope standards').
2. The IAASB provided directional input and specific comments for further consideration in the development of the exposure draft for the in-scope standards, as outlined in the June 2025 IAASB meeting minutes available in [Agenda Item 1](#) on the *IAASB Quarterly Board Meeting – September 15–18, 2025* webpage.

¹ The topics discussed during the June 2025 IAASB meeting included: (i) defining tests of details, (ii) analytical procedures, including substantive analytical procedures, (iii) using audit evidence obtained in previous audits, (iv) accepting records and documents as genuine, (v) alignment with concepts of ISA 315 (Revised 2019), (vi) positioning paragraph 26 of ISA 330, (vii) automated tools and techniques (ATT), and (viii) professional skepticism.

² International Standard on Auditing (ISA) 330, *The Auditor's Responses to Assessed Risks*

³ The work for the in-scope standards is based on '[Proposed ISA 500 \(Revised\) Pre-finalization Holding Package](#)' that encapsulates the Board's decisions on key aspects addressed in the [Exposure Draft for Proposed ISA 500 \(Revised\)](#), [Audit Evidence \(ED-500\)](#), including the IAASB's deliberations of proposals and options based on the feedback received on ED-500 (see [Agenda Item 5](#) discussed by the IAASB at the March 2024 quarterly meeting).

⁴ ISA 520, *Analytical Procedures*

Materials Presented

Agenda Items for Board Discussion

3. The table below provides an overview of the selected topics on AE&RR and the related separate Agenda papers that will be subject to the Board's input and views in September 2025.

Agenda Item 9–A	Material Classes of Transactions, Account Balances, and Disclosures
Agenda Item 9–B	The Auditor's Work Related to Authenticity
Agenda Item 9–C	Technology
Agenda Item 9–D	Clarifying the Use of Tests of Controls
Agenda Item 9–E	Substantive Procedures Alone Unable to Provide Sufficient Appropriate Audit Evidence
Agenda Item 9–F	Alignment with Concepts of ISA 315 (Revised 2019) ⁵
Agenda Item 9–G	Tests of Controls Alone to Respond to an Assessed Risk of Material Misstatement
Agenda Item 9–H	Investigating the Results of Analytical Procedures

Appendices and Supplemental Agenda Items Accompanying This Paper

4. This Agenda Item includes the following appendices and supplemental agenda items:

Appendix 1	AE&RR Project Team Assignments
Appendix 2	Outreach Activities and Meetings
Appendix 3	Focused Discussions with Users of Financial Statements
Appendix 4	Deep-Dive Sessions with Monitoring Group (MG) Members
Appendix 5	Engagement with Regulators and Audit Oversight Authorities
Appendix 6	Input from Jurisdictional Standard Setters (JSS) and Professional Accountancy Bodies (PAOs)
Appendix 7	Engagement with Accounting Firms

⁵ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Appendix 8	Feedback from the Small and Medium Practices Advisory Group (SMPAG)
Appendix 9	Highlights from the Diverse Stakeholder Roundtable
Agenda Item 9–I (Supplemental)	Mapping Progress on Proposed Actions of the AE&RR Project Proposal

Approach to Addressing the Proposed Actions in the Project Proposal

5. **Agenda Item 9–I** sets out a table mapping the progress of the standard-setting actions in paragraph 28 of the AE&RR project proposal. In addition, the table highlights the qualitative standard-setting characteristics set out in the project proposal and those included in the Public Interest Framework (PIF)⁶ that are to be used to assess the public interest responsiveness of the proposed revisions for the in-scope standards.

Coordination

Technology Consultation Group (TCG)

6. In July 2025, the AE&RR project Staff met with Staff and members of the IAASB's TCG to receive their views and input relevant to project actions that include exploring introducing principle-based requirements or application material relating to the use of technological tools in obtaining sufficient appropriate audit evidence (see also **Agenda Item 9–C**).

International Ethics Standards Board for Accountants (IESBA)

7. In August 2025, Staff of the AE&RR project met with Staff of the IESBA to have an initial discussion on certain revisions being considered to the in-scope standards and determine their interoperability with provisions of the IESBA Code.⁷ Staff intend to engage in further coordination activities with the IESBA post September 2025.

Interactions with the Board

8. Since March 2025, Staff have held a number of virtual meetings and one in-person meeting over three days with the Project Board Members to receive input and advice in the development of the issues presented to the Board in September 2025, as well as for the ongoing outreach activities that inform the project work. In addition, Staff held 2 meetings with individual Board members and Technical Advisors to receive feedback and discuss certain aspects of the project work.

Outreach

9. Details of outreach activities and meetings are included in **Appendix 2**.

⁶ See the Monitoring Group report [Strengthening the International Audit and Ethics Standard-Setting System](#).

⁷ The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*

Consideration of Feedback

10. The feedback from the collective stakeholder outreach undertaken since March 2025 is presented in **Appendices 3–9**.
11. The feedback received was a key source of input for Staff and the Project Board Members when developing the issues that will be subject to the Board's input and views during the September 2025 IAASB meeting. As applicable, Staff have also provided the Board their views on the feedback, particularly for topics where a range of views were noted by different stakeholder groups (see, for example, **Agenda Item 9–A**).
12. Post September 2025, Staff and the Project Board Members will continue to consider the stakeholder input received in informing the development of issues and recommendations for the in-scope standards.

Way Forward

13. Based on the Board's feedback in September 2025, the AE&RR Staff and Project Board Members will continue to discuss the issues discussed at the meeting. Also, in December 2025, the Board will consider Staff's analysis, views and recommendations in relation to certain other proposed actions in the project proposal to address key issues for technology-related matters and the auditor's work on internal controls.
14. In addition, Staff will continue to engage in coordination activities with other IAASB projects, Consultation Groups and the IESBA, as appropriate, seek advice from IAASB members in the development of issues, and continue to engage with stakeholders as part of project-specific outreach and the IAASB's general outreach program.

AE&RR Project Team Assignments

IAASB Staff Contacts

1. The IAASB Staff contacts for the project:
 - Kalina Shukarova Savovska
 - Megan Leicht
 - Fadi Mansour
 - Ana Espinal-Rae
 - Kristie Zhang

Project Boards Members

2. The Project Board Member contacts for this project are:
 - Josephine Jackson
 - Edo Kienhuis
3. Information about the project can be found [here](#).

Appendix 2

Outreach Activities and Meetings

Meetings and Working Sessions

1. Staff have engaged with representatives of the following stakeholders in person or at virtual meetings:

Users of Financial Statements

- Meetings with members of the Stakeholder Advisory Council and individual users of financial statements from Canada, Japan, Malaysia, Spain, Belgium, Italy, Romania, Hong Kong, New Zealand and United States.
- European Federation of Financial Analysts' Societies.
- Securities Analysts Association of Japan.
- Corporate Reporting Users' Forum (UK Chapter)

MG Members

- Standards Coordination Working Group of the International Forum of Independent Audit Regulators.
- Committee on Issuer Accounting, Audit and Disclosure of the International Organization of Securities Commissions.

Regulators and Audit Oversight Authorities

- Australian Securities and Investment Commission (Australia).
- International Auditing Standards Subgroup of the Committee of European Auditing Oversight Bodies.
- Canadian Public Accountability Board (Canada).
- Capital Market Authority (Kingdom of Saudi Arabia).
- Dutch Authority for the Financial Markets (Netherlands).
- Financial Reporting Council (United Kingdom).
- Independent Regulatory Board for Auditors (South Africa).
- Public Company Accounting Oversight Board (United States).
- Securities and Exchange Commission of Brazil (Brazil).

JSS and PAOs

- American Institute of Certified Public Accountants.
- Institute of Chartered Accountants of England and Wales.

Accounting Firms

- Baker Tilly International Limited.
- BDO International.
- Crowe Global.
- Deloitte Touche Tohmatsu Limited.
- Ernst & Young Global Limited.
- Grant Thornton International Limited.
- Global Public Policy Committee.⁸
- KPMG International Limited.
- Forvis Mazars Global Limited.
- PricewaterhouseCoopers International Limited.
- RSM International.

Stakeholder Events

2. The AE&RR project was discussed at the following stakeholder events:
 - Forum of Firms meetings in Amsterdam (April 2025) and in New York (June 2025).
 - SMPAG meeting in New York (May 2025).
 - IAASB-JSS Liaison Group (IAASB-JSS) meetings in New York (May 2025 and May 2024).

Roundtable

3. In July 2025, the AE&RR project hosted a virtual roundtable that convened representatives from the audit oversight and regulatory community and the auditing profession to discuss varying stakeholder perspectives for selected topics being considered under the project and to inform future actions of the IAASB.

Presentations

4. Staff of the AE&RR project received a presentation by academics covering insights into emerging use-cases for AI in audit and assurance engagements.

⁸ See the <https://www.globalpublicpolicycommittee.org/>

Appendix 3

Focused Discussions with Users of Financial Statements

Timing and Format of the Focused Discussions

1. In April and June 2025, focused discussion sessions were undertaken with users of financial statements, including consultations with members of the Stakeholder Advisory Council (SAC), to explore their viewpoints on the auditor's work for material classes of transactions, account balances and disclosures (COTABDs).
2. The discussions were set up in virtual format of up to 1 hour and included a moderated discussion by Staff, with participation of Board members. A total of 13 individual users and SAC members engaged in the focused discussions from the following jurisdictions: Canada, Japan, Malaysia, Spain, Belgium, Italy, Romania, Hong Kong, New Zealand and United States. In addition to the virtual participation two users provided written submissions to the request for input. At the meetings with individual users of financial statements, there also were representatives from the European Federation of Financial Analysts' Societies (EFFAS)⁹ and the Securities Analysts Association of Japan (SAAJ).
3. Staff also participated in the quarterly meeting of the Corporate Reporting Users' Forum (CRUF)¹⁰ UK Chapter where input was sought on the topic of the auditor's work for material COTABDs.
4. Ahead of the focused discussion sessions, users of financial statements were provided with a cover note outlining the purpose and format of the sessions, background information explaining the topic, the questions for participants (see also paragraph 6 below) and links where further information can be found. The intention was to facilitate advance preparation in relation to the targeted matters discussed in an informative and succinct manner.

Identifying Users of Financial Statements for the Focused Discussions

5. Staff identified a potential list of 29 users of financial statements, endeavoring to include different types of users and users from different geographical backgrounds, that were invited to participate in the focused discussion sessions, accommodating several options for attending at different dates and times zones. In identifying the users of financial statements, Staff referred to outreach undertaken as part of previous projects (e.g., the going concern and fraud user outreach). This was supplemented with additional contacts identified from the Sustainability Assurance project outreach, as relevant, and through liaising with the Staff of the International Accounting Standards Board (IASB) who facilitated a referral request to members of the IFRS Foundation Capital Markets Advisory Committee.

Questions for Participants

6. Staff and the Project Board Members developed questions for two topical areas that were discussed

⁹ EFFAS is the federation of financial analyst associations in Europe and is the umbrella organization of 14 national, local societies of investment professionals in Europe.

¹⁰ The CRUF is an informal network of buy-side, sell-side, credit ratings and governance professionals (both equity and fixed income), which has more than 250 participants globally.

in each focused discussion session as outlined in the box below.

Discussion Questions for Participants

Risk-Based Audit Model

1. What are your perspectives on the risk-based audit model, which requires the auditor to perform more robust work over financial statement items where risks of material misstatement are identified and assessed?

Approach to Material COTABDs That Are Not Significant COTABDs

2. Regarding the assumption that is inherent in the 'safety-net' requirement that users of financial statements have an expectation that auditors perform procedures to substantiate all material COTABDs, regardless of whether those financial statement items are significant COTABDs (i.e., the item is material, but the auditor has not identified a risk(s) of material misstatement):
 - (a) Should auditors continue to be required to design and perform substantive procedures for such items, or would alternatives regarding the auditor's work effort meet your expectations?
 - (b) If substantive procedures should continue to be required, what are your reasons?
 - (c) If procedures other than substantive procedures would meet your expectations, what are your reasons? Also share your views about the nature and type of work that you would expect the auditor to perform on a material COTABD that is not a significant COTABD.

Key Insights from the Outreach – What we Heard?

Risk-Based Audit Model

7. There was support from users about the appropriateness of a risk-based audit model whereby auditors are required to perform more audit work the higher the assessed risk of material misstatement (ROMM).
8. Users identified clear benefits of such an approach, including allowing auditors to use time and resources efficiently as more audit work is focused on transactions that are high-risk, complex and therefore of relevance to users of financial statements. In addition, views included that auditors should focus their efforts on areas with identified ROMM, rather than covering all areas equally.
9. In providing their perspectives, some users also:
 - Cautioned that material misstatements may still occur despite a risk-based approach, particularly if such an approach is not implemented effectively in practice. For example, some were concerned that auditors may not sufficiently challenge management, particularly in areas involving higher or complex judgments.
 - Emphasized that the effectiveness of the model relies heavily upon the auditor's professional judgment and expertise, both of which, can be under pressure due to various factors. Because the auditor's judgment plays a critical role in the risk assessment process when determining what balances are significant, some users highlighted the importance of the auditor understanding the entity's business to perform a proper risk assessment and to that end, recommended a move toward greater specialization within the audit profession to ensure

auditors can properly evaluate industry-specific risks. Clear and consistent documentation by the auditor to support professional judgment was also noted as critical.

- Commented that the auditor's work often relies on past events and experiences (e.g., even if a balance did not change, the environment may have changed, which may affect complexity). Risk assessments should not be static because risks can change year to year, and the auditor should review and update the risk assessment regularly in view of changes in the macroeconomic environment that may necessitate reassessment. The auditor should regularly reflect on, and reassess the effectiveness of their audit strategy, and whether the auditor has appropriately applied the risk-based model.
 - Cautioned that risk assessments are inherently imperfect, particularly when the auditor relies too heavily on management's systems and controls without sufficiently applying professional skepticism or when the auditor may apply the same risk assessments year after year, potentially overlooking emerging fraud risks. In addition, comments were made that fraud is committed by management, who are often familiar with standard audit procedures and know how to circumvent them.
 - Expressed concerns regarding the subjectivity inherent in the model, emphasizing its reliance on the auditor's professional judgment. They viewed the potential for imperfect risk assessment as a relevant risk from the investor's perspective.
10. While acknowledging that more robust audit work may entail higher audit costs, some users noted that from an investor's perspective, audit costs are considered a valuable investment if the audit enhances the reliability of the financial statements and helps detect material misstatements that could affect investment decisions. Users emphasized their reliance on the auditor's work over the financial statements (i.e., 'they take the audited numbers as granted'). From the user's perspective, audit reliability must take precedence over efficiency, as audits serve a public assurance function rather than just a profit-driven service.
11. Some users also commented that:
- There could be instances for materiality (quantitative threshold) to override qualitative risk factors (e.g., 'significance'). For example, even balances such as prepayments are in cases the cause of company scandals.
 - Users are interested in size (materiality) and what work has been done for such balances. In addition, the importance of how the auditor determines materiality was noted, suggesting that:
 - (i) greater transparency is needed for investors on how materiality is determined and (ii) auditors should communicate materiality levels clearly to investors, preferably through written explanations or inclusion in the audit report. It was pointed out that there often is some misalignment between what auditors and investors consider 'material,' driven by:
 - No numeric threshold to define materiality, leading to lack of clarity.
 - Investors and auditors may prioritize different information, risking overlooking certain items.
 - Auditors often lack context about the investor's priorities.

- Certain transactions or account balances may be quantitatively small, however, qualitatively significant and may not be identified as a material COTABD.
- Understanding the business context, the macroeconomic environment, and investor priorities is essential for auditors to make informed judgments about materiality.
- There is also an asymmetry of understanding what is material and risk from an investors and auditor's perspective. It was highlighted that the core challenge lies in distinguishing between 'significance' versus 'materiality' and how risk is being evaluated. More attention is needed from auditors on understanding what investors would find relevant in the company's financial statements. On the other hand investors don't sufficiently understand what is material and significant for the auditor, and also there is no mechanism for the investor to communicate to the auditor what is material and relevant from their perspective. For example, segment disclosures and cash flow statements are critical to investors, however, the auditor often does a poor job at auditing them and they do not feature as key audit matters (KAMs) because they were 'not of significance to the audit for the current period.' It was strongly recommended that auditors improve transparency and provide more information about their decisions and judgment to the investors.

Approach to Material COTABDs That Are Not Significant COTABDs

12. Majority of users supported retaining a 'safety-net' requirement in some shape of form in the standards.
13. In addition, there was broad support by the majority of users to continue to require auditors to design and perform substantive procedures for material COTABDs that are not significant, for the following reasons:
 - Material COTABDs, even if not significant, can still influence users' decisions.
 - The requirement helps to detect a 'type II error' and is an important insurance for investors (i.e., where the auditor assesses no ROMM, but a material misstatement actually exists).
 - The audit effort for material COTABDs is not expected to be extensive given that such balances are typically less complex and it is unclear why they would significantly add to audit costs.
 - In cases where the likelihood of a misstatement is low, but the potential magnitude is high, the consequences of an undetected misstatement could be significant.
 - It is appropriate to expect audit work for both material and significant COTABDs. On the other hand, it is not appropriate to ask auditors to perform work on low risk and immaterial balances.
 - Aligns with user expectations, who are looking for something that gives them comfort that work has been done for material balances.
 - Substantive procedures are essential when the entity's internal controls are weak. In addition, even where controls appear to be strong, auditors must have the appropriate skills and judgment to evaluate whether reliance on the management's internal control is appropriate. Also, systems of internal control are very varied across jurisdictions. There is a concern that the auditor may be reluctant or lack the authority to challenge management or push for improvements in internal controls, in particular where management may override or compromise internal controls of the entities.

- The requirement is reasonable and does not appear burdensome for auditors, especially when material balances are involved. A key concern is that while investors are clear about what is 'material' to them, the concept of 'significance' is specific to the audit framework and lacks transparency. This disconnect may lead to inconsistencies between what investors consider material and what auditors assess as significant COTABDs.
 - Requiring substantive procedures could help with addressing risks of imperfect risk assessment because there is a risk that could be important but overlooked by the auditor.
 - Because risk assessments are inherently imperfect, the 'safety net' serves an important purpose. Substantive procedures should not be omitted simply because a balance is deemed 'not significant.'
 - Even if standards were to change to waive the performance of substantive procedures for material but not significant material COTABDs, the auditor would still bear responsibility if fraud were later found due to flawed risk assessment.
 - Reliability cannot be achieved through risk assessment alone, as auditors cannot perfectly identify all risks of material misstatement.
 - Substantive procedures on material but not significant COTABDs typically do not require significant audit effort, and it is unclear why certain auditors seek to omit them. Rather than focusing on reducing procedures for efficiency, auditors should prioritize detecting management fraud and approaching their work with greater professional skepticism.
 - It is appropriate to retain a requirement for the auditor to perform some level of work over material COTABDs, even when they are not associated with ROMM.
 - Emerging technologies, such as Artificial Intelligence (AI), could play a role in reducing audit costs and enhancing efficiency.
14. Those users who expressed reservations with the 'safety net' requirement, noted the following perspectives:
- Concern that the 'safety net' requirement may conflict with the risk-based model.
 - Perception that it could constrain the auditor's professional judgment.
 - Risk that it diverts auditor attention and resources from areas of higher significance, potentially impacting audit quality.
 - The 'stand-back' requirement when performing risk assessment procedures is sufficient protection.
 - If auditors assess the risk of material misstatement as very low or remote, additional substantive procedures may not be necessary.
 - Auditors should perform procedures that support the audit opinion and align with their risk assessments, not merely act as a fallback or 'safety-net.'
 - Preparers—not auditors—are responsible for getting financial reporting right, and overreliance on auditors may undermine auditor independence.

- The nature and extent of work should be tailored to the entity and its industry, and technology (e.g., AI) may help auditors better analyze data and identify which COTABDs are truly significant.
 - Any procedures performed should provide assurance aligned with the audit opinion, considering cost-benefit trade-offs.
15. In discussing alternatives to substantive audit procedures for material COTABDs, some users:
- Remained open to alternative approaches that could serve the same purpose as the current 'safety net' requirement. They emphasized that the nature and extent of such alternatives would need to be tailored to the specific circumstances as well as that they need to offer the right level of protection to investors.
 - Noted that determining the appropriate auditor's work effort is difficult from their perspective as it is a highly specialized audit area, and reiterated that their reliance on the auditor's work and judgment to address the risks appropriately.
 - Suggested more transparency around the auditor's judgment why there was no risk for these balances because this would help users better understand the auditor's work and decisions made. For example, auditors may disclose a list of material but not significant accounts in the auditor's report so there is transparency about the different ROMMs for such items and also to disclose information in the auditor's report about the materiality used in the audit to determine such balances.
 - Some users expressed reservations about the effectiveness of control testing as alternative procedures, particularly where the entities' policies and control documentation are outdated or inconsistently applied. Others found test of controls as an acceptable alternative to substantive procedures in many cases, however, also noted that in some instances, substantive procedures would still be necessary. They also cautioned that internal controls in some jurisdictions are often 'form over substance,' and may not be sufficient on their own as audit evidence.
 - Some users commented that additional risk assessment procedures alone would be sufficient to address material COTABDs, while others believed that the auditor should obtain audit evidence of different purposes (i.e., substantive procedures, test of controls procedures) when addressing material COTABDs.
 - Some users supported the idea of a reduced audit effort on material COTABDs that are not significant. For example, the auditor may use a smaller sample size or perform tailored procedures.

Other Matters

16. The following other matters were also raised in the focused discussions with users:
- Users often sought clarifications around how auditors determine materiality, including what benchmarks and percentages are used by the auditor to determine materiality. In addition, users inquired about the differences between 'materiality' and 'significance' and how these concepts are used in the context of the ISAs. It was also noted by some users that the

distinction between material and significant COTABDs is not sufficiently clear and may be confusing in practice.

- The determination of materiality was highlighted as a critical aspect of the audit process, with many investors emphasizing its inherently subjective nature and some concern that determination of materiality by the auditor might not always align with investor needs.
- Some users noted that the different nature and type of audit procedures is not clear enough to investors.
- Some users commented that terminology such as ‘substantive procedures,’ ‘safety net’ and ‘stand-back’ are confusing and there is a need to clarify this terminology.
- Some users also inquired about why the IAASB is revisiting this issue now, noting that it had previously deliberated on the matter in 2018 in the course of the revisions for ISA 315 (Revised 2019) and decided at that time not to make changes based on not having a compelling reason to do so from its responses to the exposure draft.
- Comments were made on the importance of bringing outside perspectives when auditors take a risk approach, for example when they stand back, to ensure their decisions don’t overlook viewpoints that might be common sense for those outside the auditing professions.
- There was strong agreement among investors that there is a need for more information and transparency about the auditor’s work, for example, by communication via KAM. In addition, it was noted that communication with investors is always lacking, and more explanation is needed in the auditor’s report or in written format.
- Some users highlighted inconsistencies between information disclosed in the financial statements and in sustainability reporting, and how this may create challenges to users in evaluating overall entity performance.
- Several users highlighted the importance of the auditor’s understanding how entities use AI, with one investor questioning whether sufficient audit work is being performed in this area. In addition, the use of AI on audits may save audit costs but if such technology is not properly tested and there are no proper guardrails around its use on engagements, then this may lead to low quality.
- Some users highlighted the importance of the auditor’s assessment of ROMM at the financial statement level, in addition to the risks of material misstatement at the COTABD and assertion level.

Deep-Dive Sessions with MG Members

Standards Coordination Working Group (SCWG) of the International Forum of Independent Audit Regulators (IFIAR) ¹¹

Introduction

1. On August 12, 2025, Staff of the AE&RR team engaged in a deep dive session with IFIAR SCWG representatives to obtain their viewpoints on whether certain observed performance challenges being considered by the AE&RR project are more prominently related to areas where:
 - (a) There is clarity in the requirements and application material in the standards, but auditors fail to do what the standards require (i.e., deficiencies in auditor's application of the requirements); or
 - (b) Auditors do not do what is required because the requirements or application material are not clear or leave room for misinterpretation (i.e., issues relating to the clarity and conciseness of the ISAs which diminish understandability).
2. In addition, in their written response to ED-500, IFIAR SCWG highlighted several areas where the proposed requirements and key areas in application material of ED-500 should be strengthened.¹² These were considered and factored into the changes reflected in the Holding Package of Proposed ISA 500 (Revised). IFIAR SCWG representatives were provided with an overview how the most prominent items from their written response were addressed and were asked to discuss aspects they would wish to further highlight or draw attention to.

Key Takeaways from the Engagement

3. With respect to Proposed ISA 500 (Revised), IFIAR SCWG representatives:
 - Welcomed the reinstatement of the requirement, and related application material, to evaluate the appropriateness of the work of the management's expert as audit evidence for the relevant assertion from the extant audit evidence standard.
 - Expressed support for the requirement in the extant audit evidence standard setting an obligation for the auditor to evaluate the accuracy and completeness of information produced by the entity, rather than the approach in Proposed ISA 500 (Revised) which includes providing essential material to the requirements that accuracy and completeness are ordinarily significant attributes for internal information. In addition, it was noted that using terminology such as 'ordinarily' in the requirements is not sufficiently clear that this sets an obligation for the auditor to perform audit procedures for accuracy and completeness when information is produced by the entity.
 - Commented that the threshold 'significance' for the attributes of reliability of information may

¹¹ While the meeting was facilitated by the IFIAR SCWG, views provided by representatives at the meeting were in the context of individual regulatory bodies, and not the IFIAR as a whole.

¹² See the [comment letter](#) from IFIAR dated April 24, 2023.

be ambiguous and not properly understood when evaluating information intended to be used as audit evidence.

4. IFIAR SCWG representatives disagreed or noted strong caution about pursuing an approach in the ISAs which allows under certain circumstances and on a conditional basis, for tests of controls alone to provide sufficient appropriate audit evidence that a ROMM *at the assertion level* does not need to be further addressed with substantive procedures. The following viewpoints were made:
 - It is very difficult to think about the topic on a conceptual basis (i.e., without an example of the circumstances or conditions that need to apply).
 - Misstatements are most often identified through substantive testing, and not by tests of controls alone.
 - There are numerous inspection findings around poor execution of tests of controls and there may be unintended consequences should an auditor focus on a control testing strategy only.
5. There was also disagreement about permitting an approach in the ISAs which allows auditors to rely solely on substantive analytical procedures to address a significant ROMM. The following perspectives were shared:
 - There are instances where auditors do not recognize the difference between analytical procedures and substantive analytical procedures. This leads to execution issues when performing substantive analytical procedures that is the root cause of related inspection findings.
 - If a substantive analytical procedure could address a significant risk alone, it could be questionable whether this is a significant risk in the first instance.
 - A substantive analytical procedure can be used to address a significant risk however this would be in combination with other procedures.

International Organization of Securities Commissions' (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1)

Introduction

6. On August 19, 2025, Staff of the AE&RR team engaged in a deep dive session with representatives of IOSCO Committee 1 to obtain their viewpoints around the expectations they may have of the standards and, therefore, of the auditor's responsibilities or work, related to the matters being addressed by the project.
7. In addition, IOSCO Committee 1 written response¹³ to ED-500 was discussed and input was sought on whether there are any other items they would wish to highlight relevant to the Holding Package of Proposed ISA 500 (Revised). In seeking views on this matter, IOSCO Committee 1 representatives were provided with an overview how the most prominent items from their written response were addressed and were asked to discuss aspects they would wish to further highlight or draw attention to.

¹³ See the [comment letter](#) from IOSCO Committee 1 dated March 7, 2023.

Key Takeaways from the Engagement

8. With respect to Proposed ISA 500 (Revised), IOSCO Committee 1 representatives appreciated the IAASB considering their comment letter on ED-500, noting that it would be useful to provide further examples in Proposed ISA 500 (Revised) of the auditor's use of technological tools when performing substantive procedures, such as for remote inventory observations or revenue testing.
9. IOSCO Committee 1 representatives cautioned for pursuing an approach in the ISAs that allows, under certain circumstances and on a conditional basis, for tests of controls alone to provide sufficient appropriate audit evidence that a ROMM at the assertion level does not need to be further addressed with substantive procedures, in view of the following considerations:
 - The objective of a test of control differs from that of substantive procedures, and it is more often for misstatements to be detected through substantive testing rather than testing of controls.
 - Internal control, no matter how well designed and operated, can only reduce, but not eliminate, ROMM in the financial statements. As explained in paragraph A43 of ISA 200 there are inherent limitations of controls.
 - Inspection findings often uncover deficiencies in tests of controls performed by audit teams, such as overreliance on ineffective controls or testing controls that are not appropriate or precise enough to address relevant risks.
10. With respect to the use of technological resources in performing audit procedures, IOSCO Committee 1 representatives supported the principle-based approach and current categorization of audit procedures in the ISAs (e.g., risk assessment, tests of controls, substantive procedures). The following comments were made:
 - Providing some specific examples of where the current categorization of audit procedures might not be adequate would be helpful for the IAASB before considering changes.
 - The same technology may be used for different audit procedures (risk assessment or further audit procedures) but nevertheless audit procedures must always be designed to meet their distinct objectives regardless of the tool used.
11. In addition, IOSCO Committee 1 representatives expressed concerns about risks from increased use of technology on audits, including reliance on system-generated reports, automated calculations, and evidence from third-party or cloud-based service providers. Representatives observed inconsistent auditor work effort in addressing the relevance and reliability of such information.

Appendix 5

Engagement with Regulators and Audit Oversight Authorities

Introduction

1. Between May and August 2025, Staff of the AE&RR project engaged in individual working sessions with the following regulators and audit oversight authorities:
 - Australian Securities and Investment Commission (Australia).
 - Committee of European Auditing Oversight Bodies (CEAOB), International Auditing Standards Subgroup representatives from France, Netherlands, Denmark and Poland.¹⁴
 - Canadian Public Accountability Board (Canada).
 - Capital Market Authority (Kingdom of Saudi Arabia).
 - Dutch Authority for the Financial Markets (Netherlands).
 - Financial Reporting Council (United Kingdom).
 - Independent Regulatory Board for Auditors (South Africa).
 - Public Company Accounting Oversight Board (United States).
 - Securities and Exchange Commission of Brazil (Brazil).
2. In selecting regulatory organizations for the sessions, consideration was given to include representation from a broad range of global geographical regions. Representatives were invited to participate in 2.5-hour virtual working sessions covering a broad range of topics relevant to the in-scope standards considered by the project.

Key Insights from the Outreach – What we Heard?

Determining Whether and How to Test Controls

3. Consistently, regulators observe audit approaches that rely on a combination of tests of controls and substantive procedures. Some also noted that there is an increasing shift towards substantive-only approaches in some jurisdictions.
4. Views were shared about the importance for entities to have ‘observable’ controls for auditors to be able to obtain meaningful audit evidence by performing tests of controls. It was noted that this is a more feasible expectation for larger, sophisticated entities, where documentation of control performance is sufficient for auditors to rely on. On the other hand, smaller entities often lack internal control formality.
5. They also commented that auditors:
 - Often default to substantive procedures even when they may not be sufficient, particularly in highly automated environments, leading to audit quality issues.

¹⁴ While the meeting was facilitated by the CEOAB, views provided by representatives at the meeting were in the context of individual regulatory bodies, and not the CEOAB as a whole.

- Fail to consider whether substantive procedures alone are sufficient, and how deficiencies in controls affect inherent risk assessments.
- There can be a checklist-based mentality in control testing, lacking integration with overall audit planning and execution. In addition, findings from control testing are often not used to inform risk assessments or the design of substantive procedures. There is also a tendency sometimes to dismiss control deficiencies as outliers without modifying audit responses appropriately.

Tests of Controls Alone as a Means to Provide Sufficient Appropriate Audit Evidence at the Assertion Level

6. There was general caution from the feedback to allow for tests of controls to provide sufficient appropriate audit evidence that a ROMM at the assertion level does not need to be further addressed with substantive procedures. The following perspectives were shared:
- A sole reliance on controls approach to address a ROMM at the assertion level could be acceptable under very specific conditions (e.g., highly automated environments).
 - The appropriateness of a control reliance approach depends on both the nature of the control and the nature of the risk involved.
 - Auditors should be required to obtain sufficient and appropriate audit evidence irrespective of the approach.
 - Allowing tests of controls alone may not be appropriate because substantive procedures provide an independent assessment of whether anything was missed from tests of controls prompting auditors to reassess whether controls are operating at the expected level of precision.
 - A test of controls only audit approach could reduce audit quality if misapplied and introduce more inspection findings.

Using Audit Evidence Obtained in Previous Audits

7. Some regulators noted that they do not commonly observe auditors using previous audits evidence or applying controls rotational testing, noting that their inspections are focused on complex audit areas that are usually of significance and where such an approach does not apply.
8. Some regulators believed that retaining the 3-year baseline in the standards for retesting a control is helpful and that extending beyond this maximum could erode quality and encourage deferral of retesting.
9. Views were also shared that:
- A circumstance where rotation of controls might be applicable is for highly automated revenue transactions with strong general IT and change management controls—but even then, the evidence obtained must be rigorously supported.
 - When used, there is a tendency to default to a ‘maximized’ three-year rotational approach without adequately demonstrating why this remains appropriate or what has changed. Some regulators expressed concerns about deficiencies such as overreliance on management representations, despite changes in key personnel and insufficient documentation.

General Information Technology Controls (GITCs)

10. Regulators consistently observed challenges in practice around how auditors evaluate and test GITCs. They commented that:
- Auditors often abandon GITC reliance when deficiencies are found, instead of evaluating if deficiencies can be mitigated or if compensating controls exist.
 - There is a general mindset and knowledge gap among auditors about how to respond to IT control deficiencies or how to integrate GITC findings into an appropriate audit response.
 - There is insufficient integration and communication between IT specialists and audit engagement teams.
 - Failures are observed to revise the audit plan when GITC deficiencies are identified.
 - Auditors often treat GITC testing as a compliance exercise rather than integrating the findings into financial statement audit procedures. As a result, control deficiencies are not influencing audit responses as they should.
 - There are instances in audits where GITC deficiencies were not addressed, and auditors continued to rely on application controls without adjusting their testing strategy.
 - Recurring deficiencies are noted whereby auditors test and rely on application controls but fail to test the underlying GITCs supporting such direct controls.
 - Auditors often fail to document their understanding of controls and business processes, hindering their ability to identify and test relevant GITCs.
 - Frequent inspection findings are observed where auditors fail to recognize the need to test the reliability of system-generated reports used in substantive testing, incorrectly assuming such reliance is valid without work on establishing GITC effectiveness.
11. There was broad support among regulators for including an explicit requirement in ISA 330 to test GITCs when relied upon given this could be effective in prompting auditors to reassess whether their audit evidence depends on untested GITCs. In addition, because effective GITCs are seen as a prerequisite both for reliance on controls and for substantive procedures using system-generated data; standards should link GITC effectiveness explicitly to audit-evidence requirements.

The Auditor's Work for Material COTABDs

12. Majority regulators supported retaining paragraph 18 of ISA 330 viewing it as critical to the public interest as a 'safety-net' ensuring minimum substantive work on COTABDs that are material but not significant. Regulators provided the following reasons:
- Very large balances are inherently risky. Auditors should apply substantive work and maintain a 'stand-back' perspective to ensure big-ticket items are covered by audit evidence.
 - There are recurring instances where material balances are not identified as significant and therefore risk being inadequately audited.
 - Frequent situations are observed where the risk assessment process is used to rationalize away risks rather than to understand what could go wrong. A common example is cost of goods sold which is often addressed only through high-level analytics, despite being complex and

material. There is concern that auditors rely on gross margin stability as evidence of no risk, without understanding the underlying processes, allocations, and assumptions (e.g., overhead, payroll rates, inventory movements).

- Paragraph 18 of ISA 330 is seen as a backstop to prevent audit gaps when auditors risk-assess material items as non-significant. Even if imperfect, it compels some minimum audit work and prevents complete omission of procedures on such balances.
- Even revenue, depending on the stream, is sometimes classified as a material but not significant balance—raising concerns about downward pressure on risk classifications and procedures. Also, instances were noted where auditors failed to aggregate revenue streams during risk assessment properly, leading to inappropriate grouping of accounts and missed risks.
- Findings were identified where auditors performed additional risk assessment procedures in response to paragraph 18 of ISA 330, instead of substantive procedures, which does not meet the standard's intent. In other instances, regulators found cases where paragraph 18 of ISA 330 procedures were deficient. Related inspections have sometimes found material misstatements or led to required 'repair' work to support the audit opinion.
- Highly material items are observed, such as acquisitions receiving only limited or high-level analytical procedures, which is considered highly deficient.
- Some reported that audit failures have occurred when material balances were not properly tested, often due to reliance on control testing alone or misuse of materiality to obscure significant deficiencies.
- Challenges stem from the undefined concept of 'significance,' which enables excessive professional judgment and leads to inconsistencies in audit performance.
- The substantive element is seen as a non-negotiable safeguard and control reliance alone is not sufficient for material balances.

13. Suggestions were also provided to:

- Provide more guidance on what procedures are expected when paragraph 18 of ISA 330 applies, as there is inconsistency in execution—e.g., auditors often default to minimal procedures such as cutoff only, instead of targeting the most relevant assertions. A recurring issue is auditors choosing assertions that are easiest to test rather than those most susceptible to material misstatement, thereby minimizing effort rather than achieving audit objectives.
- Be more specific about which procedures are expected. Auditors frequently use paragraph 18 of ISA 330 to justify minimal procedures without addressing completeness or disaggregated accounts, especially for expenses spread across immaterial line items that are collectively material. There are also instances of misuse of professional judgment to reduce sample sizes and avoid sufficient procedures, even when full-population testing would be feasible (e.g., in real estate funds).
- Inconsistencies in the application material of ISA 315 (Revised 2019) and ISA 330 should be addressed, noting that this leads to auditors interpreting the standards differently and often do not apply paragraph 18 of ISA 330 when risk factors are absent.

- There is confusion among auditors about the meaning of 'material' in paragraph 18 of ISA 330—some view it purely quantitatively, while the standard intends to also capture qualitative materiality. It is necessary to clarify that 'material' includes both quantitative and qualitative considerations.

Substantive Analytical Procedures

14. There was broad agreement from regulators that substantive analytical procedures alone should not be allowed as an adequate response to a significant ROMM given concern that this may negatively impact audit quality.
15. In addition, regulators shared the following perspectives:
 - There are reoccurring findings when auditors label a procedure as a substantive analytical procedure, however they fail to meet the ISA 520 requirements (e.g., the procedures are too high-level, lack disaggregation, unsupported expectations, and limited or no corroboration).
 - Common deficiencies include expectations not supported by relevant data; analyses performed at aggregated or entity-wide level, even for large, complex balances like cost of goods sold; lack of understanding between risk assessment analytics and substantive analytical procedures and lack of professional skepticism.
 - Many auditors mistakenly treat high-level comparisons (e.g., gross margin year-on-year) as substantive analytical procedures, without performing the required procedures under ISA 520.
 - There are frequent failures to corroborate explanations obtained through inquiry—e.g., auditors simply document management's explanation without performing further testing
 - While ISA 520 contains the right elements, execution is poor, and more illustrative guidance or clarifying examples may be helpful.
 - The substantive analytical procedures tend to be generic (e.g., merely year-on-year comparisons presented as substantive procedures). Substantive analytical procedures should not be considered substantive procedures unless they meet *all* ISA 520 requirements and provide sufficient appropriate audit evidence.
 - Firms sometimes use substantive analytical procedures based on unreliable data or without evidence of data accuracy and completeness, undermining the validity of the procedure.

Using Technological Tools in Performing Engagements

16. Regulators provided the following perspectives:
 - Support for the need for auditors to understand technological tools' inputs, operation, and outputs to ensure consistent application in audit engagements.
 - The use of new technologies, including AI, is increasing across both audit firms and companies, but practices remain immature and inconsistent, raising regulatory concerns. Standard-setters have a role to play in this space.
 - Auditors should treat technology as a tool to achieve objectives, not as a substitute for critical audit thinking. Having firm-approved technological tools and properly trained staff to understand the tools purpose and output is of relevance.

- Existing ISA principles may not be interpreted consistently across firms, especially smaller ones. This can lead to inconsistent adoption and application of technology in audits.
- Generative-AI tools pose heightened risks due to processing opacity; the requirement to understand tool operation should be retained, not relaxed.
- While not supportive of introducing a blanket requirement to mandate the use of technological tools, there was acknowledgement that in some audit circumstances introducing technology is effectively necessary, such as crypto audits requiring blockchain explorers. Other audit scenarios where technology is necessary: banking, insurance, and online retail—especially where transaction volumes are high or data is complex.
- Expressed concern when auditors audit highly technological companies without using equivalent audit technology themselves, such as relying on spreadsheets while the entity uses AI systems.
- Potential risks identified related to data privacy and security when audit data is processed through technological tools, particularly where data might leave the jurisdiction or enter restricted regions.
- While firms certify tools at the firm level, engagement teams remain responsible for validating input and output relevance and sufficiency at the engagement level.
- Advanced AI tools, that lack explainability, may challenge the auditor's ability to gather sufficient appropriate evidence. In such cases testing outputs alone may not suffice.

Appendix 6

Input from JSS and PAOs

IAASB-JSS Liaison Group meeting in New York on May 7–9, May 2025

Introduction

1. At their meeting in New York on May 7–9, 2025, IAASB-JSS Liaison Group (IAASB-JSS) representatives received an update on the AE&RR project since the approval of the project proposal in December 2024 and on the way forward to anticipated approval of an exposure draft for the concurrent revisions of ISA 330, ISA 500, and ISA 520.
2. In addition, among other matters,¹⁵ input was sought from JSS representatives about the auditor's work for material COTABDs for the questions outlined in the box below.

Discussion Questions for IAASB-JSS

Nature, Size and Frequency of Material COTABDs not Determined to be Significant

1. Representatives are asked to share insights on the nature, size (as a proportion of performance materiality) and frequency of material COTABDs identified on audit engagements. This may also include views on whether:
 - (a) Circumstances where a material COTABD that is not determined to be a significant COTABD are more common than the *likely rare* assumption?
 - (b) On a relative basis, do such balances surface more often on certain types of audit engagements and if so, on what types of audit engagements?

Approach to Material COTABDs That Are Not Significant COTABDs

2. Regarding the requirement in paragraph 18 of ISA 330:
 - (a) Should auditors continue to be required to design and perform substantive procedures for material COTABDs that are not determined to be significant, or would alternatives regarding the auditor's work effort meet your expectations for a 'safety net'?
 - (d) If substantive procedures should continue to be required, what are your reasons?

The Auditor's Work for Material COTABDs – Highlights of What we Heard?

3. JSS representatives expressed mixed views, as outlined below, on whether the 'safety net' requirement in paragraph 18 of ISA 330 continues to be appropriate:
 - Some JSS representatives supported removing paragraph 18 of ISA 330, raising concerns that the requirement may lead to unnecessary audit effort and potentially undermine the robustness of the risk-based approach set out in ISA 315 (Revised 2019). In addition, views included that

¹⁵ Views were also sought from JSS on the following topics: (i) the adequacy of the term 'automated tools and techniques' and its description and (ii) on positioning of the auditor's conclusion on sufficiency and appropriateness of audit evidence. See [Agenda Item 4](#) of the June 2025 IAASB meeting where the feedback on these topics was presented to the Board.

it is unnecessary for the standards to include a ‘third line of defense’, given that paragraph 36 of ISA 315 (Revised 2019) already includes a relevant ‘stand-back’ requirement.

- Some JSS representatives advocated for clarifying, rather than removing the requirement. They emphasized the need for the ‘safety net’ in cases where no further audit procedures are performed for material balances and questioned whether such an approach would be acceptable to users of financial statements.
 - Some JSS representatives believed that the requirement should be strengthened, and that the auditor should be required to perform work for all assertions related to a material COTABD.
4. While perspectives varied, there was broad acknowledgement of the importance for the IAASB to conduct additional outreach with diverse stakeholders, including users, regulators and practitioners on this matter. In addition, experiences were shared by representatives from jurisdictions who have a different approach to the ‘safety net’ in their national equivalent auditing standard.¹⁶
5. JSS representatives also shared the following perspectives with respect to paragraph 18 of ISA 330:
- Material but not significant COTABDs arise more frequently on audit engagements than the ‘likely rare’ presumption. For example, it is often the case that there are one or two material COTABDs identified on each audit engagement.
 - That material COTABDs more often occur on smaller audit engagements, as well as that most often these are balance sheet items such as fixed assets, loans payable, grant accounts, deposits, goodwill and equity accounts, but may also include profit and loss accounts such as other expenses.
 - While such balances are often of low risk, they are often above performance materiality. Consequently, if something goes wrong with these COTABDs, then the impact on the financial statements may be significant.
 - Referring to the requirement as a ‘safety net’ sends the wrong message (i.e., implies that something has gone wrong with the risk assessment).
6. In discussing alternatives to substantive procedures for material but not significant COTABDs, JSS representatives noted that:
- The current requirement appears misaligned with the project objective to encourage auditors to more commonly use tests of controls in responding to ROMM.
 - Auditors are often disincentivized from performing tests of controls due to perceived regulatory scrutiny and interpretation. Also, there is a lack of clear recognition in the standards whether such testing alone can provide sufficient appropriate audit evidence at the assertion level or about the appropriate corresponding ‘credit’ relating to the nature and extent of substantive procedures.
 - The application material in paragraph A44 of ISA 330 is potentially inconsistent with ISA 315 (Revised 2019) and may therefore necessitate better alignment.

¹⁶ For example, the Public Company Accounting Oversight Board (PCAOB) Auditing Standards require that, regardless of the assessed level of control risk, the auditor performs substantive procedures for each relevant assertion of each significant account and disclosure. However, the concept of material COTABD does not apply to the PCAOB Auditing Standards.

IAASB-JSS Liaison Group meeting in New York on May 1–2, May 2024

Introduction

7. Views were sought from IAASB-JSS at their meeting in May 2024 that pertained to matters related to Proposed ISA 500 (Revised). In particular, views were specifically sought on further drafting clarifications considered by the Audit Evidence Task Force (AETF) post the March 2024 IAASB meeting which relate to the attributes of relevance and reliability of information and for accuracy and completeness.

Highlights of What we Heard?

Attributes of Relevance and Reliability of Information

8. IAASB-JSS broadly supported the AETF proposal to use the word 'significance' as the threshold for the auditor's consideration of those attributes of reliability that are of most importance in evaluating information intended to be used as audit evidence. IAASB-JSS also provided the following key comments:
- There may be circularity in the way the requirements in paragraphs 9 and 10 interact (e.g. the standard implies that the auditor performs audit procedures to turn information into audit evidence but also that the auditor performs audit procedures on the audit evidence itself).
 - Additional clarity is necessary to support the:
 - Linkages and interactions between paragraphs 9 and 10.
 - Auditor's work effort and the related documentation expectations for the attributes of relevance and reliability of information, particularly because the requirements imply work effort for all attributes of reliability (i.e., completeness, accuracy, authenticity, bias and credibility). In this respect suggestions included replacing the work effort verb 'consider' with 'take into account' in the requirement in paragraph 9.
9. Comments were also made that because the audit evidence standard is a foundational ISA that provides a reference framework for the auditor when making judgments about audit evidence, it may not always be helpful or necessary to break down the requirements of the standard into discrete steps.

Accuracy and Completeness

10. IAASB-JSS provided the following key comments with respect to the requirement in paragraph 10 of Proposed ISA 500 (Revised):
- Representatives highlighted regulatory views that there are recurring audit evidence related findings identified during audit inspections when it comes to sufficient testing of the relevance and reliability of information intended to be used as audit evidence from sources internal to the entity. Suggestions included to strengthen the requirement by elevating concepts from the application material, such as elevating the other attributes of reliability (i.e., authenticity, bias and credibility) to give them the necessary prominence.
 - Representatives suggested to address accuracy and completeness in the requirements, rather than as essential material. This is because the requirement in paragraph 10 was seen as

complex to understand and because the essential material included in the requirement reads as a 'hidden requirement'.

- Comments were also provided that:
 - The essential material is scoped too broadly and should be narrowed (e.g., to explain that the attributes of accuracy and completeness are of significance for information intended to be used as audit evidence when responding to significant risks).
 - Relevance should also be included into the requirement, in addition to the attributes of reliability.

Other Matters

11. IAASB-JSS Representatives also:

- Commented that the requirement when the auditor uses automated tools and techniques (ATT) should address the design of an ATT, in addition to determining whether the ATT operate as designed.
- Noted their support for certain other changes proposed, such as removing the 'stand-back' requirements and the enhancements made for professional judgment and professional skepticism, including the enhanced linkages to the IESBA Code provisions that promote the role and mindset expected of professional accountants.
- Encouraged ongoing coordination with IESBA to align associated outcomes with the technology-related revisions to the IESBA Code.
- Noted that it would be very useful for IAASB-JSS for the IAASB to make available on its website a final version of the Complexity, Understandability, Scalability and Proportionality (CUSP) Drafting Principles and Guidelines.

Written Submission from the American Institute of Certified Public Accountants (AICPA)

12. To inform the work of the AE&RR project, Staff also received a written submission from the AICPA Staff regarding the auditor's work for material COTABDs.
13. In their submission it was noted that:
- (a) The US standards for public and private companies take a different approach from paragraph 18 of ISA 330, with a focus on significant accounts and relevant assertions.¹⁷
 - (b) In practice it is common that material COTBDs, not determined to be significant are identified (i.e., it is not a likely rare circumstance).
 - (c) This decision is made based on professional judgment, following robust risk assessment procedures. For example, practitioners evaluate quantitative (e.g., size of account in relation to materiality for the financial statements as a whole) and qualitative risk factors to determine which accounts and disclosures are significant and which assertions are relevant. The auditor:

¹⁷ For example, AU-C 330.18 (the US equivalent to ISA 330.18) states 'The auditor should perform substantive procedures for *each relevant assertion of each significant* class of transactions, account balance, and disclosure, regardless of the assessed level of control risk.'

- Evaluates risk factors relevant to the identification of significant accounts and disclosures and their relevant assertions.
 - Performs risk assessment procedures, for example a combination of the following (not all-inclusive):
 - Obtains a roll-forward of the account, agrees amounts to trial balance and activity detail (e.g., scan of the details, such as additions, repairs, maintenance).
 - Procedures to compare change in activity (e.g., amortization, depreciation) based on prior year balances.
 - Review of macro-economic/industry reports (e.g., consideration of triggering events).
 - Inquiries of management, review of board minutes and significant contracts and relevant disclosures in the prior year financial statements.
 - Where applicable, sensitivity analysis over assumptions or retrospective review of forecasts.
 - Concludes whether there is a reasonable possibility that the COTABD could contain a material misstatement.
 - This evaluation is generally completed as part of planning and updated through completion of the audit.
- (d) Examples of balances are:
- Definite-lived intangible assets.
 - Property, plant and equipment.
 - Goodwill.
 - Materials and supplies.
 - Accounts receivable (consideration of valuation assertion).
 - Pension obligation (associated with a frozen pension plan).
 - Debt and interest expense.
 - Self-insurance reserve.

Institute of Chartered Accountants of England and Wales (ICAEW)

14. Staff of the AE&RR project met with ICAEW representatives in London in July 2025 to discuss certain topics being considered by the project, including technology-related topics and matters relevant to the auditor's work on internal controls.
15. In providing their perspectives, ICAEW representatives noted the following views related to the auditor's work on internal controls:
 - Caution was noted about mandating a controls-only audit approach given that tests of controls remain a challenging area for many audit firms, and in particular on smaller and less complex

entities audits due to weak or undocumented controls by the entities, leading to substantive procedures being more prevailing.

- Testing the operating effectiveness of GITCs is essential when auditors rely on system-generated reports to perform audit procedures. However, mandating the testing of GITCs would be impractical, given frequent deficiencies noted, limited IT audit resources in smaller audit firms, and excessive costs of heiring external experts. Caution was expressed that mandating GITC testing could render many smaller audits un-auditable.
16. With respect to material but not significant COTABDs, ICAEW representatives questioned the necessity of the requirement in paragraph 18 of ISA 330, viewing it as addressing an audit performance risk rather than a principle that should be retained in the standards.
17. ICAEW representatives highlighted that stakeholders in the UK are calling for greater acknowledgement and integration of data analytics in auditing standards. The following viewpoints were made regarding the use of technological tools in performing an audit:
- The conditional requirement in paragraph 10A of Proposed ISA 500 (Revised) and the current guidance around the 'input-operations-output' model lacks clarity on how it can be applied in the case of emerging technologies such as GenAI. Some representatives suggested that the conditional requirement should be based on how technological tools are used.
 - The ISAs should remain principles-based to ensure futureproofing in view of technologies that are evolving rapidly.
 - The description of 'automated tools and techniques' focuses too much on the tools themselves rather than their use and application.
18. Regarding the categorization of audit procedures and in view of the increased use of technological tools on audits, ICAEW representatives encouraged the IAASB to re-articulate the purpose of procedures rather than emphasizing rigid categories of 'risk assessment' versus 'substantive' procedures.
19. ICAEW representatives highlighted that substantive analytical procedures remain relevant and useful, particularly when supported by high precision and the availability of disaggregated data. In addition, views were shared that substantive analytical procedures:
- Can, in some cases, address significant risks if applied at a sufficiently detailed and precise level.
 - Should not be discouraged due to concerns such as circular auditing, but instead, standards and guidance should enable auditors to confidently perform substantive analytical procedures with new technologies.

Engagement with Accounting Firms

Forum of Firms (FoF) Meeting in Amsterdam on April 2, 2025

Introduction

1. At its meeting in Amsterdam on April 2, 2025, FoF Representatives were briefed on the AE&RR project and were asked to provide views on specific topics considered to date by the project. An overview of the questions on which feedback was sought and a summary of the key takeaways from this outreach are provided below.

Nature, Size and Frequency of Material COTABDs not Determined to be Significant

Questions for Forum of Firms Representatives

1. Representatives are asked to share insights on the nature, size (as a proportion of performance materiality) and frequency of material COTABDs identified on audit engagements. This may also include views on whether:
 - (a) Circumstances where a material COTABD that is not determined to be a significant COTABD are more common than the *likely rare* assumption?
 - (b) On a relative basis, do such balances surface more often on certain types of audit engagements and if so, on what types of audit engagements?
2. FoF Representatives views included that while material COTABDs are not widespread on audit engagements, they do surface more commonly than the 'likely rare' scenario. In addition:
 - There could be one or two (or a handful) of material COTABDs, but equally there may be an audit engagement without any material COTABDs, and this varies from engagement to engagement, based on facts and circumstances. As an example of a circumstance where material COTABDs may surface more commonly may be an audit of a parent company accounts.
 - Typically, material COTABDs are balance sheet items that don't have a lot of activity (e.g., land or equity balances without year-on-year changes), or items when the percentage of activity in relation to the balance of the account is relatively small.
 - Their size varies and in cases such balances can be just above performance materiality while in others could be multiples of materiality.
 - A factor that could drive the volume of material COTABDs on audit engagements is the level of aggregation versus disaggregation at which significant COTABDs are being determined. For example, there could be greater number of material COTABD that surface on an audit engagement when determining significant COTABDs on a more disaggregated level. In addition, a more disaggregated approach could potentially overlook that at an aggregated level there could be a ROMM.

Approach to Material COTABDs That Are Not Significant COTABDs

Questions for Forum of Firms Representatives

2. Regarding the requirement in paragraph 18 of ISA 330:
 - (a) Should auditors continue to be required to design and perform substantive procedures for material COTABDs that are not determined to be significant, or would alternatives regarding the auditor's work effort meet your expectations for a 'safety net'?
 - (b) If substantive procedures should continue to be required, what are your reasons?
3. Majority of FoF Representatives were of the view that the requirement to perform substantive procedures for material COTABDs not determined to be significant (i.e., paragraph 18 of ISA 330) should not be retained in its current form and with the extant wording for the following reasons:
 - The revisions to ISA 315 (Revised 2019) already include a 'stand-back' requirement for the auditor to evaluate whether the determination of material COTABDs not determined to be significant remains appropriate. Also, other ISAs are sufficiently robust.¹⁸
 - It undermines the auditor's risk assessment (e.g., sends a message that a robust risk assessment is not of importance as auditor's are irrespectively required to perform substantive procedures for all material COTABDs).
 - Requiring substantive procedures for material COTABDs becomes a compliance exercise in practice, drives a 'checkbox' mentality, risks inconsistent application and creates a disconnect of what users may believe a risk-based audit entails.
 - Any concerns about inappropriate risk assessments performed should be addressed in ISA 315 (Revised 2019), rather than requiring substantive audit procedures for material COTABDs not determined to be significant. For example, considering whether ISA 315 (Revised 2019) could be enhanced to address aggregation risk related to multiple material COTABDs not determined to be significant.
 - The requirement could potentially stifle technological innovation on audits, such as deploying sophisticated technological tools to perform more robust and precise risk assessments.
4. Some FoF Representatives:
 - Observed mixed views within their networks, or expressed support, for retaining some level of substantive work for material COTABDs not determined to be significant (i.e., a 'safety net' approach) in view of the auditor's risk assessment not always being precise enough.
 - Commented that there could be means other than performing substantive procedures to achieve the 'safety net' rationale.

¹⁸ For example, there are additional 'stand-back' requirements in the ISAs, such as to 'stand-back' at the point when forming the reasonable assurance conclusion or to evaluate, before the conclusion of the audit, whether the assessments of ROMM remain appropriate.

- Noted that the PCAOB's standards require a different approach and there is some desire among firms to converge audit methodologies.

Tests of Controls Alone as a Means to Provide Sufficient Appropriate Audit Evidence at the Assertion Level

Questions for Forum of Firms Representatives

3. Representatives are asked to share insights on whether in your network you allow for the possibility that an assertion-level ROMM identified in a COTABD may be addressed only with tests of controls? If so, what conditions apply and what factors were considered in reaching this position?
 4. What are your views on an approach which allows under certain circumstances and on a conditional basis, for tests of controls alone to provide sufficient appropriate audit evidence that a ROMM at the assertion level does not need to be further addressed with substantive procedures?
5. FoF Representatives broadly recognized that it is worthwhile further exploring whether test of controls alone may provide sufficient appropriate audit evidence at the assertion level. In providing their feedback, FoF Representatives commented as follows:
- Majority of FoF Representatives noted that their methodologies do not allow for the possibility that an assertion-level ROMM identified in a COTABD may be addressed only with tests of controls.¹⁹
 - While it is probable that some assertion-level ROMMs can be covered effectively through test of controls, it is questionable whether test of controls alone could provide sufficient appropriate audit evidence that applies at the COTABD level.
 - Further clarity is helpful on whether the standards allow for relevant assertions of a significant COTABD to be addressed through tests of controls alone, as well as clarity about the types of risks and the types of accounts where this would be appropriate. For example, in the case of circumstances where there are highly automated transactions with limited judgments.
 - Subject to consideration of the risk of management override of controls, there may be unintended consequences with an approach that requires some level of substantive procedures in all circumstances (e.g., behaviors that lead to poorly designed and performed testing of controls given that substantive work is always required as well as undermining the value of controls testing).
 - Subject to consideration of the risk of management override of controls, there may be circumstances in which tests of controls alone are sufficient, however, in such circumstances rotating tests of controls should not be permitted.

¹⁹ Paragraph 18 of ISA 330 requires substantive procedures for material COTABDs, irrespective of the assessed ROMM. This paragraph would apply in circumstances when further audit procedures for a significant COTABDs do not include substantive procedures (i.e., when they only include tests of controls).

Deep-Dive Session with FoF in New York on June 24, 2025

Introduction

6. Feedback was sought from FoF Representatives at its meeting in New York on June 24, 2025, on selected topics being considered by the AE&RR project.
7. The format of the session included breakout group discussions and the composition of each breakout group, was as follows:
 - Group A – GPPC Networks
 - Group B – Larger Mid-Tier Networks
 - Group C – Medium to Smaller Mid-Tier Networks
 - Group D – GPPC Networks (virtual)
 - Group E – Grouping of Larger, Medium, Smaller Mid-Tier Networks (virtual)
8. An overview of the questions on which feedback was sought and a summary of the key takeaways from this outreach are provided below.

Topic 1: General Information Technology Controls (GITCs)

Questions for Forum of Firms Representatives

1. Forum of Firm Representatives are asked to share their views with respect to the proposed requirement to test the operating effectiveness of GITCs when information used in further audit procedures depends on their continued effective operation. As part of the feedback for this topic, the project team is particularly interested in hearing:
 - (a) About potential implications of the proposed requirement, including any potential benefits to audit quality, or practical concerns about implementing the requirement.
 - (b) Whether the threshold for the requirement (i.e., when information used in further audit procedures is dependent on GITCs) is sufficiently clear, and if not, any suggestions for clarity.
 - (c) Examples of the additional or alternative procedures that firms' methodologies require or suggest that auditors perform when GITCs are found to not be operating effectively, in order to obtain audit evidence that the impact of the risk arising from the use of IT that the GITCs had been designed to address has not occurred.

Group A

- Concerns were expressed that the wording of the proposed requirement to test the operating effectiveness of GITCs is unclear because it suggests that whenever the entity's information depends on GITCs, then the auditor would be required to test them, even in circumstances where the auditor could establish the reliability of the information by other means. It was suggested to clarify the requirement to make it clear that it is the auditor who intends to rely on information that depends on GITCs.
- Views included that the proposed requirement is not necessary, given that:

- The requirements of ISA 315 (Revised 2019) and ISA 330 address the testing of GITCs already, and they remain fit for purpose being principle based rather than prescriptive.
- Execution issues cited by certain regulatory inspection findings related to insufficient work around GITCs will not be addressed by introducing the proposed requirement given that the auditor would not in the first instance have identified GITCs that address risks of IT that they are relying on.
- The standards should allow for the auditor's use of professional judgment to identify and assess risks and determine an appropriate response to those risks, rather than mandating a specific response.
- Firm methodologies are the best means to address the approach when testing GITCs is necessary and this should not be a matter specifically mandated by the standards.
- Perspectives were provided that the testing of GITCs is challenging work, that often requires specialist skills. So even if the circumstances in which the proposed requirement applies were clear, the requirement may inadvertently create an execution (performance) risk, where the operating effectiveness of GITCs is tested even when there are other available ways of obtaining evidence about the relevance and reliability of information that is IT-generated. This could be detrimental to audit quality, and in particular for audits of smaller or less complex entities, if the requirement suggests to users of the standards that the testing of GITCs is a superior way to gather evidence.
- Suggestions included to consider developing application material or non-authoritative guidance to support more consistency in practice for this area.

Group B

- Concerns were expressed that the proposed requirement will have adverse implications because regulators may interpret it as an obligation to test GITCs in all circumstances or could overemphasize such testing over other possible alternatives.

Group C

- There was support for the proposed requirement to test the operating effectiveness of GITCs given it would facilitate enhancing audit quality by ensuring consistent practice and minimizing the use of IT generated information without having performed appropriate procedures to evaluate its reliability.
- The need for clear application material and examples accompanying the proposed requirement was emphasized to support scalable and consistent interpretation and application.
- Specific comments on enhancing the wording of the proposed requirement included to be clearer about the meaning of 'information' and 'used in.' It was also suggested to enhance the linkages with ISA 315 (Revised 2019) that may be useful when complying with the proposed requirement in ISA 330.
- A perspective was also shared to consider the risk whether the requirement could cause misunderstanding or misinterpretation of what it really means (e.g., interpretations by some engagement teams that it reduces work from other procedures).

Group D

- Group D noted aligned views with those as of Groups A and B related to the issues raised with respect to the proposed requirement to test the operating effectiveness of GITCs.
- Additional points raised included:
 - That it is unclear whether the newly proposed requirement is intended to replace existing paragraph 10(b) of ISA 330. There was caution shared that although GITCs are one form of indirect controls, there are also other indirect controls.
 - Concerns that the proposed requirement may not be aligned with the concepts and requirements in ISA 315 (Revised 2019) which allow for direct testing of reports.
 - Caution about scalability matters and a note that even larger entities do not necessarily have the formality or documentation of GITCs in place to facilitate testing of operating effectiveness. The ability to perform other procedures to address IT risks remains necessary for all sizes of audits, in particular for testing of system-generated reports.

Group E

- Group E noted aligned views with those of Groups A, B and D with respect to the issues raised for the proposed requirement to test the operating effectiveness of GITCs. In addition, scalability concerns were raised for smaller entities who may not have robust GITCs, while noting that the assumption that robust GITCs is relevant to all entities regardless of size and complexity.

Topic 2: Principle Based Requirements Relating to the Use of Technology to Perform Audit Procedures

Questions for Forum of Firms Representatives

2. Forum of Firms Representatives are asked to share their views about:
 - (a) Whether there are scenarios in which the use of technological tools appears necessary in performing an audit engagement, to plan to obtain sufficient appropriate audit evidence to support the auditor's conclusion.
 - (b) Whether the standards should require explicitly that the auditor determine the need to use technological tools in performing an audit engagement.
 - (c) The proposed conditional requirement in Paragraph 10A of Proposed ISA 500 (Revised), including about its clarity, implementability, and scalability.

In providing views on this matter, the project team is also interested in hearing what firms' methodologies require from engagement teams when they use technological resources to perform audit procedures.

Group A

- There was acknowledgement that scenarios in practice are rare in which the use of technological tools in performing an audit engagement are necessary to plan to obtain sufficient appropriate audit evidence to support the auditor's conclusion. Examples of such scenarios are in blockchain or crypto. It was also noted that the judgments and decisions to use technology are driven by audit quality

considerations and the practicality to obtain audit evidence (e.g., when auditing large amounts of information).

- There was lack of support for explicitly requiring auditors to determine whether to use technology in an audit engagement given that the extant standards are fit for purpose. This is because the standards already require the auditor to identify and assess risks and to respond to such risks. Based on the nature and circumstances, the auditor needs to think about the procedures they need to design and perform to respond to risks, and as part of this, they will think about their resources including human and technological resources. In addition, comments included that:
 - There are already requirements in various standards that address this matter both at the firm level in ISQM 1²⁰ and at the engagement level in ISA 220 (Revised).²¹
 - There are already requirements in ISA 315 (Revised 2019) that support the identification of risks of material misstatement at a level of granularity that supports considering whether a suitable response to assessed risks should include the use of technology.
- The approach of ISA 620²² was also discussed, noting that this standard is narrowly focused on the use of specialists in fields 'other than accounting or auditing.' There is a concern that a similar approach for technological tools (i.e., to determine whether to use a technological tool or not) would be impracticable because of the documentation requirement that would accompany it.
- With respect to the conditional requirement in paragraph 10A of Proposed ISA 500 (Revised), it was noted that the operation of the tool is already addressed by principles in ISQM 1 and ISA 220 (Revised), and that the inputs and outputs are fundamental to any audit procedure and on this basis there is no need to call them out when using a technological tool.

Group B

- There was general agreement that an explicit requirement to determine whether to use technology in an audit engagement is not necessary, given it could lead to a check-box approach. The evaluation of a technological tool on each audit engagement is too burdensome and is already a responsibility for the firm as per ISQM 1.
- On the engagement level, there should be emphasis on the assessment of the inputs and outputs when using a technological tool, rather than the operation of the tool itself as this would be addressed at the firm level. In addition, the consideration of use of technological tools is well understood in terms of circumstances where it makes sense based on nature of the audit engagement, or volume of transactions.

Group C

- There was general agreement that an explicit requirement to determine whether to use technology in an audit engagement is not necessary. In addition:

²⁰ International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

²¹ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

²² ISA 620, *Using The Work of an Auditor's Expert*

- While recognizing the benefit of using technology on audits and in particular where there are large volume of transactions that are complex, occurrences when it would be deemed necessary to mandate the use of technological tools on audit engagements would be rare.
- Rather than introducing a requirement on determining whether to use technology, it may be beneficial to consider a requirement, at the planning stage, requiring audit teams to discuss *how* to use technological tools.
- With respect to the proposed conditional requirement in paragraph 10A of Proposed ISA 500 (Revised), comments were made that:
 - There is no need to bring additional requirements at the firm level, as technological resources are adequately addressed by ISQM 1.
 - At the engagement level, there is support for paragraphs 10A(a) on the inputs and 10A(c) on the outputs in Proposed ISA 500 (Revised), with clearer linkages to ISQM 1.

Group D

- Views included that prescribing a requirement to use or determine whether to use technological tools in performing audit engagements is not necessary, given that the existing requirements in the standards sufficiently and robustly address these matters (i.e., the relevant requirements in ISQM 1 and ISA 220 (Revised) addressing technological resources), and providing further requirements is duplicative. Instead, enhancing guidance was suggested as a possible means for providing clarifications.
- It was noted that Proposed ISA 500 (Revised) already includes appropriate requirements for the input-output model that could be applied to the use of any tool. In addition, by introducing the conditional requirement in paragraph 10A of Proposed ISA 500 (Revised) this may create a specific model when using technological tools to perform audit procedures that may not be future proof given concerns about how it would apply to emerging technologies. Instead, it was suggested to rely on existing principles or consider an output focused model.

Group E

- There was caution against providing anything too specific into the standards around the use of technology, given the rapid evolution in this space. In addition, there was support for retaining principle-based standards to help auditors make sound decisions.
- In addition, there was concern around scalability in the context of the application of requirements, given that auditors of smaller or less complex entities may be uncomfortable with using technological tools and it may become burdensome if they are required to assess the need to use technological tools on such audits.

Topic 3: Clarity of Terminology

Questions for Forum of Firms Representatives

3. Forum of Firms Representatives are asked to share their views, including their potential impact on practice, on:

- (a) The proposed definition of ‘tests of details.’
- (b) The proposed definition of ‘substantive analytical procedures.’
- (c) The refinements to the definition of ‘analytical procedures.’
- (d) The clarifications to the scope of ISA 520 regarding the auditor’s use of analytical procedures across all stages of an audit, including for risk assessment procedures, substantive analytical procedures and analytical procedures that assist when forming an overall conclusion.

Group A

- Concerns were raised about the proposals to introduce definitions for ‘tests of details’ and ‘substantive analytical procedures.’ Comments were made that by attempting to define these terms, this will have the consequence of restricting auditors to use other procedures that are capable of detecting material misstatements unless they fall within the defined buckets. Views also included that if the definitions are retained then the definition of substantive procedures should be broadened to say that they ‘include’ rather than ‘comprise’ tests of details and substantive analytical procedures.
- Providing definitions for ‘tests of details’ and ‘substantive analytical procedures’ is not necessary, given that Proposed ISA 500 (Revised) addresses the types of audit procedures that could be used and that by adding additional definitions this can create complexity without any benefit. In addition, the purpose of an audit procedure is sufficiently clear in the standards, which could be to identify and assess risks or respond to risks. Given that these principles are already articulated in the standards it is unnecessary to define other terms which could become restrictive as the use of advanced technological tools blurs the lines between audit procedures.
- Comments were also provided that the distinction between ‘tests of details’ and ‘substantive analytical procedures’ in the proposed definitions remains unclear, given that substantive analytical procedures may also be performed at the item level.

Group B

- The following comments were made with respect to the proposed definitions:
 - The complexity and translatability of the proposed definition of ‘substantive analytical procedures’ was questioned (e.g., the use of the word ‘plausible’).
 - The need to define ‘tests of details’ remain unclear given that auditors have a good understanding of the meaning of this term. In addition, there may be unintended consequences for pursuing a definition.
- With respect to the scope of ISA 520, there was disagreement that the standard should bring together the auditor’s use of analytical procedures across all stages of an audit. Instead, there was support for a dedicated scope in ISA 520 addressing substantive analytical procedures alone.
- Comments were also provided that experienced auditors need to be involved in designing and performing substantive analytical procedures. In addition, it would be useful to focus on providing guidance around other aspects of the standard, rather than focusing on definitions, such as corroborating developed expectations and following up on variances from expected amounts.

Group C

- There was general support for the proposed definitions, recognizing the need to clarify terminology.
- Comments included that there is potential ambiguity in some of the wording used in the definition of ‘substantive analytical procedures’ relating to the phrase ‘determine whether there is a misstatement.’ There was support in clarifying this phrase, given it is worded as an open-ended statement, and this may have unintended consequences by causing differences in the way it is interpreted by regulators.
- With respect to the scope of ISA 520, there was support for bringing together in the standard the auditor’s use of analytical procedures across all stages of an audit.

Group D

- There was support for providing descriptions for ‘tests or details’ and ‘substantive analytical procedures,’ rather than defining these terms, given that:
 - The use of new technological tools blurs the line among different types of procedures, and they may not anymore fit neatly into buckets. For example, the use of technological tools to test an entire population (e.g., three-way match) could be an example of a test of details.
 - Auditors should be allowed to apply their professional judgment as to the types of procedures performed to come up with the right combination of audit work to respond to an assessed risk.
- Comments were also provided that:
 - The proposed definition for ‘tests of details’ also capture ‘analytical procedures’ as a type of audit procedure.
 - The proposal to elevate performance materiality to the requirements of ISA 520 as a threshold for determining the amount of difference that is acceptable without further investigation, raises concerns whether analytical procedures performed at a lower level of precision can continue to be used in combination with other procedures to address an assessed risk.

Group E

- There was broad support of the proposed definition for ‘substantive analytical procedures’ and some concern about the definition on ‘tests of details’ given the need to emphasize and make clear the purpose of the test.
- Comments were made that for substantive analytical procedures, non-authoritative guidance could be considered as a means for codifying good practice in this area, rather than introducing substantial changes to the standards.

Topic 4: Accepting Documents and Records as Genuine

Questions for Forum of Firms Representatives

4. Forum of Firms Representatives are asked to share:
 - (a) Examples of circumstances when your methodology require auditors to perform specific procedures regarding authenticity of information as part of evaluating relevance and reliability of information? For example, are certain information processing controls that may

be aimed at preventing inauthentic information from entering the entity's information system, required to be tested and if yes, in what circumstances?

- (b) Their views on whether the explanation in paragraph A24 of ISA 200²³ that documents or records may be accepted as genuine gives rise to an uncertainty as to the work effort expected from the auditor under the ISAs relating to the attribute of 'authenticity' of information? In discussing this question, please also provide your reasons.

Group A

- There was support for the retaining the explanation in paragraph A24 of ISA 200 which explains that documents and records may be accepted as genuine, unless there is a reason to believe to the contrary.
- Support for clarifying:
 - How the standards work together with respect to authenticity (i.e., the linkages between ISA 200, ISA 240 (Revised)²⁴ and Proposed ISA 500 (Revised), as well as that they are not intended to refer to the same thing (i.e., there is an important difference between genuineness of a *document and record* and authenticity of *information*).
 - The work effort expected for the attribute of authenticity of information introduced by Proposed ISA 500 (Revised), and whether it causes inconsistency with the explanation in paragraph A24 of ISA 200 as well as the consequence on widening the expectation gap and making audits impracticable. In particular, explaining that there is no expectation for the auditor to do work on every single document and record being encountered in the audit to determine that it is genuine given this would be impracticable as well as that some work is expected for reliability of information for digital information to ensure that it is not inappropriately manipulated or altered such as testing controls or verifying to source.

Group B

- Concerns were expressed that if the auditor cannot anymore accept records and documents as genuine as explained in paragraph A24 of ISA 200 then there is a risk of extending the scope of an audit and may result in an audit being impossible.
- Suggestions included to emphasize, in the application material, what factors the auditor considers that would require work effort for *authenticity* and what red flags should be considered in this area.

Group C

- There was agreement that there could be confusion and potential inconsistency in application of how the explanation in paragraph A24 of ISA 200 interacts with the work effort expected under Proposed

²³ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

²⁴ ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*. See [Agenda Item 2-J](#) of the March 2025 IAASB quarterly meeting.

ISA 500 (Revised) and ISA 240 (Revised). It was noted that this is not causing practical issues presently but has potential to do so.

- Suggestions included to refine or revise the wording in paragraph A24 of ISA 200 by taking into account the importance to apply professional skepticism.

Group D

- Not in favor of removing the guidance in paragraph A24 of ISA 200 that explains documents and records may be accepted as genuine, unless there is a reason to believe to the contrary. Caution that if this explanation is removed there will be negative consequences, such as widening the expectation gap and significantly increasing the auditor's work effort.
- Suggestions included clarifying how the requirements in the standards work together with respect to *authenticity*, rather than requiring specific procedures for authenticity. For example, clarify:
 - In Proposed ISA 500 (Revised) that there must be a risk-based consideration on whether authenticity of information is of significance (i.e., in the context of a risk-based audit) and that the auditors work effort for authenticity does not extend to every single document in an audit.
 - In ISA 240 (Revised) the linkages with the risk of management override and what considerations for authenticity is necessary when risks arise in this area (e.g., for revenue recognition).

Group E

- There was support for the comments made previously by the other breakout groups and there was agreement that there needs to be further clarity about how the requirements across the standards work together with respect to authenticity.
- Suggestions included to consider how the application of professional skepticism could be emphasized in this area as the connecting thread.

Topic 5: Using Audit Evidence Obtained in Previous Audits

Questions for Forum of Firms Representatives

5. Forum of Firms Representatives are asked to share:
- (a) Any insights available into how often engagement teams use the option to test controls only once every third audit.
 - (b) Any common features of controls about which prior year audit evidence is used more frequently by engagement teams (e.g., the type of control (automated or manual), or the classes of transactions, account balances or disclosures, and relevant assertions that the control is designed to address).
 - (c) The extent of procedures performed to obtain audit evidence about there having been 'no changes in the controls' (e.g., whether the results of procedures performed each year under ISA 315 (Revised 2019) to evaluate the design of controls, and determine that they have

been implemented as designed, are deemed sufficient for that purpose, or whether other procedures are often judged as necessary to achieve the objective of this requirement).

- (d) Their views on the options as possible ways forward with respect of the requirements in paragraphs 13–14 of ISA 330 relating to the use of audit evidence about the operating effectiveness of controls in a prior period.

In providing views on this matter, the project team is particularly interested in hearing views about the extent to which each proposal would address the issue described, as well as the potential benefits and practical challenges that may arise from each of option, given the project objectives to encourage auditors' application of professional judgment while also facilitating consistent practice in the design and performance of audit procedures in response to assessed risks of material misstatement.

Group A

- N/A²⁵

Group B

- With respect to the proposed options for a way forward for the extant requirements in paragraphs 13–14 of ISA 330, support was expressed for retaining the requirements with limited refinements (i.e., Option 1), given that the standard is not broken in this area and it is not clear what is the problem that is being solved.
- Suggestions included to clarify specific aspects of the requirements, including the:
 - Documentation expected to support placing ongoing reliance on prior year audit evidence.
 - Rationale for using audit evidence obtained from tests of controls performed in previous years.

Group C

- With respect to the proposed options for a way forward for the extant requirements in paragraphs 13–14 of ISA 330, support was expressed for replacing the requirements with a principle-based approach (i.e., Option 4), given this would be a more future based approach than the other options proposed. In addition, comments were made that:
 - While it is recognized that the standard is not broken in this area, there are benefits to exploring what a principle-based approach could involve.
 - It remains unclear why the extant standard draws an arbitrary line with respect to requiring a three-year rotational period.

Group D

- There was a strong preference for Option 1 as a way forward, given views that this is not an area where challenges are experienced in practice and therefore it is unclear what problem would be

²⁵ Due to time constraints, Group A did not have time to discuss this topic during the breakout session. However, this topic was also discussed at the SSWG of the GPPC meeting on May 9, 2025 (see paragraph 9 below of Appendix 7).

solved in case the requirements in extant are modified.

- In addition, views included that:
 - A possible alternative to Option 1 could be Option 2 (i.e., to modify the extant requirements in paragraphs 13 –14 of ISA 330 to recognize a rotational strategy that applied for automated controls only). However, it was noted that this could be restrictive to rotational strategies for manual controls which may be applicable to audits of smaller or less complex entities.
 - There is a need to reconsider whether the three-year rotational period is really necessary to be retained.

Group E

- There was a preference for Option 1. In addition, views included that Option 2 could be considered as a 'stand-by' option.
- Comments included that there is a need for considering how GITCs may be affected by these requirements: if IT systems change so often that these are addressed each year, clarifying how yearly tests of GITCs affect the ability to test other controls on a rotational basis.

Engagement with the Standards Setting Working Group (SSWG) of the Global Public Policy Committee (GPPC)

Introduction

9. At its meeting on May 9, 2025, Staff engaged in a working session with the SSWG of the GPPC to obtain their feedback and views on two matters outlined below that were also presented to the Board in June 2025.

Key Insights from the Outreach – What we Heard?

Topic 1: Accepting Documents and Records as Genuine

Question for Discussion

1. In your view, does the explanation in paragraph A24 of ISA 200 that documents or records may be accepted as genuine give rise to an uncertainty as to the work effort expected from the auditor under the ISAs for the attribute of authenticity of information? In discussing this question, please also provide your reasons.

Need for Conforming Amendment to ISA 200

- With respect to the explanation in ISA 200, that the 'auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary' GPPC SSWG Representatives commented as follows:
 - This statement remains relevant and appropriate given that the auditor under no circumstances could start questioning, or presuming doubt, about the authenticity of every document in an audit. For example, when there is a certain document (e.g., a contract) that is of such importance to the audit it would be needed to do work around authenticity for that document (e.g., confirm with a third party). In severe circumstances it may also be necessary for the

auditor to deploy forensic tools for the specific document. However, this all ties back to the risk of material misstatement related to this piece of evidence and the work around authenticity is also linked to such risk. However, individually on each single invoice among a pool of many million invoices, authenticity is not directly relevant, unless there is a systematic problem.

- The statement remains appropriate because it is consistent and aligned with the foundational responsibilities of management as recognized in ISA 210.²⁶ For example, when agreeing the terms of an audit engagement, management agrees to meet certain responsibilities, including providing access to information that is ‘relevant, to the preparation of the financial statements such as records, documentation and other matters.’ Such information is also understood to be genuine or authentic. Management also provides written representations to the auditor around these matters.
- The explanation in ISA 200 is provided in the context of documents or records as being genuine. On the other hand, ‘authenticity’ as an attribute of relevance and reliability is in the context of the information intended to be used as audit evidence. It is important to keep this distinction in mind because as you move into authentication space this is linked to individual documents and records.

Other Matters

- More guidance needed for when does the auditor have a ‘reason to believe to the contrary’ that a record or document is not genuine.
- ‘Authenticity’ is understood as being always associated with situations of ‘fraud’ (or intentional manipulation of information), based on the description for the attribute of authenticity of information in Proposed ISA 500 (Revised). If there are instances of error then this is captured by the attribute for ‘accuracy.’ May be useful to clarify *who* might have inappropriately altered a document when the auditor considers the significance of the attribute of authenticity. Also, may be useful to link authenticity to the risk of fraud, management override of control and third-party fraud.
- Encouragement to ensure that the ISAs use consistent language and avoid using different words to mean similar things, and unintentionally confuse readers: for example, the terms ‘reliability’ and ‘integrity’ and ‘authenticity’ of information.

Topic 2: Using Audit Evidence Obtained in Previous Audits

Questions for Discussion

2. Please share any views you have on the requirements in paragraph 13–14 of ISA 330. This may, for example, include views on:
 - (a) Any perceived redundancies with requirements addressed in ISA 315 (Revised 2019) or practicability challenges with the extant requirements.
 - (b) How often do engagement teams use the option to test controls only once every third year.

²⁶ ISA 210, *Agreeing the Terms of Audit Engagements*

3. Are there common features of controls where this option is used more frequently by engagement teams (e.g., does it occur more frequently for certain types of controls, such as for automated controls, or for certain classes of transactions, account balances or disclosures, and relevant assertions).

Redundancies with ISA 315 (Revised 2019)

- Majority GPPC SSWG representatives were in agreement that there are no observed redundancies in the requirements in paragraphs 13–14 of ISA 330 addressing the use of audit evidence obtained in previous audits about the operating effectiveness of controls with requirements of ISA 315 (Revised 2019). Views included that ISA 315 (Revised 2019) sets out requirements for the auditor to obtain an understanding of a variety of matters, while ISA 330 provides specific matters (or factors) that are relevant to the circumstance whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in a previous audit. It was also suggested that consideration is provided whether:
 - Clarity may be needed about how the requirements of ISA 315 (Revised 2019) work with those of ISA 330.
 - There could be room for improved consistency between the matters set out in ISA 330 and those for which the auditor obtains an understanding in each period under ISA 315 (Revised 2019).

Time Period Before Retesting a Control

- Comments were made that in a fast-changing and rapidly evolving environment, it is questionable whether there should be a more robust consideration about the continued appropriateness to use audit evidence obtained in a prior period.
- In addition, there were a range of perspectives with respect to testing controls ‘at least every third audit’, including:
 - Concern that removing the prescribed limit in the standards of retesting controls every third audit may negatively impact audit quality, if this results in auditors making judgments that audit evidence obtained in periods that are older than the established baseline of every third audit remains relevant and reliable.
 - Views that without removing the prescribed limit of three years, auditors’ judgments are being undermined whether a longer period is appropriate to elapse before retesting a control.
- Acknowledgment that regardless of the specific time limit that is contemplated, if a time period is stipulated in the ISAs, it should align in the requirement and in the application material (i.e., extant ISA 330 includes ‘every third audit’ in the requirement, and ‘every third year’ in the application material).

Common Features of Controls Where the Option is Used More Frequently

- Often the requirements to use audit evidence about the operating effectiveness of controls from a previous audit are applied to direct transactional controls, and not indirect controls.

- Because of the nature of GITCs, it is often the case that evaluating the design and implementation of GITCs can also provide evidence about their operating effectiveness, thereby avoiding the need to consider ‘rotational testing’ of GITCs.
- The requirements most often are applied to automated controls; and they are also applied to manual controls, especially in smaller or less complex entities. With a rotational strategy there are clear efficiencies to be gained that are of benefits to engagement teams.

Aspects Where Clarifications Are Helpful

- GPPS SSWG Representatives suggested the following aspects where clarification is helpful:
 - Clarity about what it means to ‘test some of those controls in each audit.’ For example, whether it is all the controls over one relevant assertion in one year, and none related to another relevant assertion of the same COTABD in that year; or is it some controls related to each relevant assertion, each year.
 - Clarifying whether it is intended for GITCs to be tested in this manner; even though in practice GITCs are not usually included in rotational schedules.

Other Matters

- It would be helpful to understand why the requirements (and concept) to use audit evidence about the operating effectiveness of controls from a previous audit exist in ISA 330 in the first place [to determine whether it remains appropriate].
- A question was asked about the extent to which the IAASB might consider the effect of conceptual clarifications made in ISA 330 to be carried forward to other IAASB standards addressing reasonable assurance engagements (on subject matter information that is not historical financial information). For example, if the underlying principles relating to rotating tests of controls are clarified for controls over financial reporting, to what extent do these translate to other contexts, such as tests of controls that relate to the preparation of sustainability information.

Working Sessions with Individual Firms

10. Between April and June 2025, Staff of the AE&RR project engaged in individual working sessions with representatives from ten individual firms as follows:
 - Baker Tilly International Limited.
 - BDO International.
 - Crowe Global.
 - Deloitte Touche Tohmatsu Limited.
 - Ernst & Young Global Limited.
 - Grant Thornton International Limited.
 - KPMG International Limited.
 - Forvis Mazars Global Limited.
 - PricewaterhouseCoopers International Limited.

- RSM International.
11. Majority of the working sessions were either in a three-hour virtual format, or half a day in person meetings to obtain insight into how firm methodologies address a broad range of topics considered by the AE&RR project. While the discussions held during the working sessions are treated as confidential, Staff have considered the learnings from this outreach in developing proposals for addressing the project actions. In addition, key insights from the outreach, without attribution to individual discussions or firms, are presented in the separate agenda papers that are subject to the Board's input and views, as applicable.

Appendix 8

Feedback from the SMPAG

Introduction

1. At their meeting in New York on May 13, 2025, SMPAG members received an update on the AE&RR project since the approval of the project proposal in December 2024 and on the way forward to anticipated approval of an exposure draft for the concurrent revisions of ISA 330, ISA 500, and ISA 520. In addition, input was sought from SMPAG members about four selected topics considered by the AE&RR project, as outlined below.

Key Insights from the Outreach – What we Heard?

Material Classes of Transactions, Account Balances and Disclosures (COTABDs)

2. With respect to the nature, size and frequency of material COTABDs that are not significant, SMPAG members:
 - Commented that such balances are more common than rare on audits of smaller and less complex entities. It was also observed by some members that they more frequently surface on smaller audits in general, given there is an interrelationship among materiality, entity size and the number of material but not significant COTABDs.
 - Examples are usually balance sheet items where no significant changes occur, such as fixed assets, utility deposits, and prepayments. Some jurisdictions (e.g., Japan) also noted that it is common for staff performance bonuses to also be an example of material but not significant COTABDs, given that such balances can be easily predicted or recalculated.
3. SMPAG members supported the requirement in paragraph 18 of ISA 330 to continue requiring auditors to design and perform substantive procedures for material COTABDs that are not determined to be significant for the following reasons:
 - The requirement serves the needs of SMP auditors well, given that in any case such audits are predominantly substantive in nature. In addition, auditors of smaller and less complex entities often choose to do substantive work for COTABDs (e.g., verify the existence of an asset) given this is straightforward in such audits and aligns with stakeholder expectations of work being performed for all material COTABDs.
 - In the absence of robust internal controls in smaller entities, which could be a possible alternative to obtain comfort about material COTABDs that are not significant, it provides the benefit of performing substantive work as the necessary means to obtain audit evidence. Views included that it would be important for auditors to continue performing some level of meaningful work on such balances, given they exceed materiality.
 - It is questionable whether the removal of paragraph 18 of ISA 330 would significantly reduce the auditor's work effort in smaller and less complex audits, given the nature of information available in such entities and current auditing practices.
4. SMPAG members also commented that:

- There is no ‘one size fits all’ approach. The advancements in technology may support auditors of smaller and less complex entities to make greater use of tests of controls and reduce overreliance on substantive procedures. However, it was also recognized that controls are often either undocumented or insufficiently formalized in such entities to support a controls reliance approach only. Use of technological tools on audits may also support auditors to perform substantive procedures on larger samples, obviating the need to rely on less formalized controls.
- Auditors of smaller and less complex entities also perform risk assessments, which drive the response to the assessed ROMM. However, it is not uncommon in practice for such auditors to decide that if a balance is material, it is also significant. This may be because of how key terminology for certain concepts is being understood (e.g., associating significant COTABDs with significant ROMMs). It was noted that it is important not to cause any unintended consequences with changes that may not be broadly understood.
- Even if the requirement to perform substantive audit procedures for material COTABDs was removed from the standards, some practitioners may continue to do so on smaller and less complex audits, for firm risk management reasons. Whether or not the ‘safety net’ is used on audit engagements should be a matter of the auditor’s professional judgment in an audit.

Automated Tools and Techniques (ATT)

5. With respect to the refinements to the description for ATT and a replacement term, SMPAG members commented as follows:
 - It is of importance to ensure that the revised description of ATT encompasses a broad range of examples (e.g., from less to more sophisticated ATT) to ensure applicability across a range of audits of various sizes and complexities. In addition, the description should remain clear so auditors of smaller and less complex entities know when they should apply any requirements related to the use of ATT on audits.
 - It is important to retain clarity, simplicity and understandability in a replacement term to be used for ATT to support scalable application and effective translation into other languages.
 - Suggestions for a replacement term to use include ‘technology-enabled audit solutions’ or a reference to ‘IT applications and tools.’ It was also noted that the term ‘enablement’ is key to conveying the role of technology in supporting audit work.

Tests of Controls

6. While recognizing the value of testing internal controls, SMPAG members noted that on audits of smaller or less complex entities, internal control environments are often informal, under-resourced, or inadequately documented, limiting practical opportunities to rely solely on controls. On this basis, they questioned the extent to which increasing the use of tests of controls would meaningfully enhance audit quality on such audits. Views also included that in the small and less complex entity auditing environment the testing of design and implementation of controls over significant risks does not provide value when the auditor’s response does not include relying on those controls.
7. Comments were also shared that with technological advancements, the difference between test of controls and substantive procedures is becoming less clear (or important), given the level of

granularity that controls are built in the entity's systems.

Scalability

8. In sharing perspectives for scalability, SMPAG members:

- Noted that it may be useful to inquire into the UK Financial Reporting Council (FRC) initiative to update the withdrawn Practice Note 26 – Guidance on Smaller Entity Documentation.
- Noted that for auditors of smaller or less complex entities, scalability is an ongoing concern, particularly in balancing cost, compliance, and client expectations. There were also concerns that if auditing standards become too burdensome, some small entities may opt out of being audited altogether, particularly in jurisdictions where the legal form of the company (limited liability or otherwise) either imposes or exempts it from auditing obligations or with voluntary audit regimes.
- Emphasized the importance of sending a clear message to the market about the value of audits as well as that certain refinements to the standards to address technological development is needed within the context of the current audit model.
- Believed that the implementation of ISA 315 (Revised 2019) was challenging, and that achieving scalability under the standard was not straightforward. In addition, views included that a post-implementation review of ISA 315 (Revised 2019) should be undertaken first before the IAASB revises standards addressing the auditor's responses to risk.
- Suggested that the principle of scalability should be considered in discussing a way forward for the 'safety net' requirement in paragraph 18 of ISA 330.

Appendix 9

Highlights from the Diverse Stakeholder Roundtable

Introduction

1. On July 23, 2025, the AE&RR project facilitated a virtual discussion among representatives from the audit oversight and regulatory community and the auditing profession for selected topics being considered under the project to better understand varying perspectives and inform the IAASB about identified actions from the AE&RR project proposal.

Participation

2. A total of 20 participants attended the roundtable, including 8 representatives from the audit oversight and regulatory community nominated by IFIAR SCWG and IOSCO Committee 1 and 12 representatives from the auditing profession as follows: 6 representing the GPPC, 3 representing from the FoF (non-founder members) and 3 nominated by the SMPAG.

Discussion Topics

3. Four topical areas considered by the project, and outlined in the box below, were discussed at the roundtable. In developing the topics and questions for discussion, Staff selected certain topics where information-gathering indicated a range of views on these matters from different stakeholder groups.

Discussion Questions for Participants

Topic 1: Material COTABDs

1. Regarding the requirement in paragraph 18 of ISA 330 (i.e., the 'safety-net'):
 - (a) Should auditors continue to be required to design and perform substantive procedures for material COTABDs that are not determined to be significant, or would alternatives regarding the auditor's work effort meet your expectations?
 - (b) If procedures other than substantive procedures would meet your expectations, what are your reasons? Also, what could such alternative procedures include (e.g., additional risk assessment procedures or testing of controls)?

Topic 2: Accepting Documents and Records as Genuine

2. Regarding the explanation in paragraph A24 of ISA 200 that the auditor may accept records and documents as genuine, unless the auditor has reason to believe to the contrary:
 - (a) Do you believe that this explanation causes an actual or perceived inconsistency with the enhanced work effort required by Proposed ISA 500 (Revised) and ISA 240 (Revised) that should be addressed through a consequential amendment?
 - (b) If so, what are your suggestions on how the explanation could be addressed?

Topic 3: Categorization of Audit Procedures

3. What are your perspectives on the approach in the ISAs to categorize the nature of audit procedures

based on their purpose (e.g., risk assessment procedures and further audit procedures) and type?

Topic 4: Substantive Analytical Procedures as a Response to Significant Risks

4. What are your perspectives on the approach in the ISAs that substantive analytical procedures alone do not provide sufficient appropriate audit evidence to respond to a significant risk?

Key Insights from the Outreach – What we Heard?

Topic 1: Material Classes of Transactions, Account Balances and Disclosures

4. There were mixed views among participants whether auditors should continue to be required (by paragraph 18 of ISA 330) to design and perform substantive procedures for material COTABDs that are not determined to be significant.
5. Majority of representatives from the audit oversight and regulatory community supported the requirement in paragraph 18 of ISA 330. They shared the following perspectives:
- Inspection findings indicate instances where inappropriate risk assessment for material COTABDs that are of importance to users of financial statements have been made with a consequence of inappropriate or inadequate work being done for such balances. The requirement in paragraph 18 of ISA 330 has helped regulators to identify these findings in inspections.
 - In theory the requirement can be argued to be unnecessary. However, because of risk assessment being imperfect and because risk assessments are not always being done robustly, the 'safety net' is necessary and can also be seen as an extension of risk assessment rather than being contrary to the risk-based audit approach.
 - There is a challenge around whether the 'safety net' is necessary if risk assessment is done appropriately. Paragraph 18 of ISA 330 may cause issues with the quality of audit work being done for material COTABDs given such work is perfunctory, may distract from other areas, and impacts the proportionality of the standards through setting requirement that apply irrespective of the audit risk model.
 - The public perception needs to be considered as part of developing a proposed course of action for this matter. Removing the requirement without any other solutions being proposed may increase the expectation gap and create a perception among the public that audit quality has been impaired.
 - Evidence or case studies of instances where risk assessment was deficient and the consequences of such deficiencies could help evaluate the necessity for a 'safety-net.' Because it is intended to serve as a 'safety net', it is important to understand and assess whether it is effectively serving as a 'safety net', including the extent to which it identified issues such as misstatements or restatements.
 - The requirement is not asking from auditors to perform procedures on balances that have no risk, but rather if an account has less risk but is still material, then the requirement acts as a third line of defense by requiring some (not extensive) substantive procedures.
 - It is important to make the safeguard work. For example, introduce unpredictability and clarify the nature and extent of the substantive work required.
6. Majority of representatives from the audit profession disagreed with the requirement in paragraph 18

of ISA 330 and shared the following viewpoints:

- Paragraph 18 negates the need for performance of a robust risk assessment because it incentivizes substantive procedures. It is inconsistent with the audit risk model and may lead to compliance driven behaviors and checklist mentality.
- ISA 315 (Revised 2019) already includes a ‘stand-back’ requirement making the ‘safety net’ requirement unnecessary.
- It is challenging to design appropriate procedures to meet the purpose of the requirement, because the framework auditors have for designing substantive procedures is in response to an assessed risk of material misstatement.
- Performing perfunctory procedures on areas where no risk of material misstatement has been identified detracts auditors’ attention from audit areas deserving more focus.
- There is an education piece necessary to bridge the expectations gap whereby stakeholders expect that large balances would have some substantive procedures performed on them.
- The absence of strong internal control systems in smaller or less complex entities means that tests of controls over material but not significant COTABDs would be a challenging alternative to substantive procedures.
- There is a need to consider confusion around terminology (e.g., ‘significant COTABD’ vs ‘material COTABD’ vs ‘significant risk.’). ‘Significant COTABD’ are often understood as being those COTABD with a significant risk, and ‘material COTABD’ those with non-significant risks.

Topic 2: Accepting Documents and Records as Genuine

7. There was broad agreement among all representatives that there is no expectation for the auditor to test every document or every journal entry in an audit. Respondents also agreed that auditors should evaluate the risk of authenticity and maintain professional skepticism throughout the audit. If a fraud risk is identified, auditors are required to respond appropriately.
8. However, there remained a range of views on whether the phrase in paragraph A24 of ISA 200 that documents and records may be accepted as genuine unless there is a reason to believe to the contrary should be retained. While majority of regulatory representatives believed that retaining the phrase does not promote the application of professional skepticism, representatives from the profession were of the view that removing the sentence may cause a risk for an audit to become inoperable.
9. Representatives from the regulatory community shared the following perspectives for this topic:
 - There is a perceived inconsistency among paragraph A24 of ISA 200 with revisions made to ISA 240 (Revised) and Proposed ISA 500 (Revised) which is caused by the wording used in the standards.
 - The risk related to document authenticity is heightened in today’s digital environment, given the ability of advanced technologies available to fabricate convincing documents. As a result, it is essential for auditors to maintain professional skepticism. Recent accounting scandals have highlighted instances where auditors failed to adequately respond to risks of authenticity.
 - Paragraph A24 of ISA 200, which states that ‘the auditor may accept records and documents as genuine unless the auditor has reasons to believe the contrary,’ may be perceived as not promoting

auditors' professional skepticism.

- There is confusion caused by use of different terms such as 'genuine' and 'authentic.'
- The agreement of management to provide the auditor with access to all information in ISA 210²⁷ does not mean that management provides the auditor with authentic information.

10. Representatives from the profession shared the following viewpoints for this topic:

- There was acknowledgement that in today's electronic environment, there is a perception that it is easier to produce documents that appear authentic but are not. However, the consideration for authenticity should be anchored to the risk assessment. When the auditor identifies a risk related to authenticity, the requirements of ISA 240 (Revised) apply. In the absence of an identified fraud risk, while there is expectation for the auditor to maintain professional skepticism and remain alert to documents or records that are not authentic, there is no further expectation for the auditor to perform additional audit procedures. It is important to clarify the boundaries of the auditors' responsibilities for this matter (i.e., when to stop).
- Management accepts responsibility to provide the auditor with access to information and there is an implied agreement that the information is not fraudulent.
- There is a need to clarify the enhanced work effort implied by Proposed ISA 500 (Revised) for authenticity of information. Also, non-authoritative guidance would be helpful to small practitioners, such as what types of documents may be more subject to authenticity risks.

Topic 3: Categorization of Audit Procedures

11. There was broad agreement among all stakeholder representatives that it is important for the ISAs to remain principle-based and fit for purpose. In addition, the purpose of an audit procedure (e.g., risk assessment procedures and further audit procedures which include test of controls or substantive procedures) was found as more important than its type because it has a direct impact on how audit evidence is obtained. In addition, there was recognition that the growing use of technology in audits will make it more difficult to categorize procedures by their purpose and type.
12. The main viewpoints shared for this topic from regulatory representatives are provided below:
- The growing use of technology in audits increasingly blurs the distinctions between risk assessment procedures and substantive procedures, as well as between tests of details and substantive analytical procedures.
 - Categorization of audit procedures is more than a matter of semantics. It has a direct impact on how audit evidence is obtained.
 - The current framework recognizes only two categories of substantive procedures, which are tests of details and substantive analytical procedures. New categories of substantive procedures may emerge in the future that do not fall strictly under these two categories.
 - Some regulatory inspections have noted higher numbers of findings related to substantive analytical procedures. This highlights a need for enhanced guidance on how to effectively perform

²⁷ See ISA 210, paragraph 6(b)(iii).

these procedures using technology.

- Illustrative examples that demonstrate how technology can be used when designing and performing audit procedures, along with clarification on how these procedures are categorized could be considered.
13. Representatives from the profession shared the following perspectives for this topic:
- It is important for the standards to be principle-based. Rigid categories of procedures may date quickly with advancement in technology. In addition, some practitioners are deferred from using technologies, fearful that the procedures performed when using technological tools do not fit properly with the recognized audit procedures.
 - Clarification and non-authoritative guidance regarding multi-purpose procedures is needed as there are often difficulties for auditors determining whether such procedures constitute risk assessment procedures or whether they are substantive procedures.
 - The purpose of audit procedures in the ISA is most important. In addition, the existing categories of audit procedures are sufficient and adding more categories would be confusing.
 - ISA 330 should provide a robust framework around how auditors ensure obtaining sufficient appropriate audit evidence to address risks of material misstatements, regardless of the categorization of procedures.
 - Some expressed concern that providing examples of specific categories of procedures could set a precedent that undermines the underlying principles-based approach in the standards.

Topic 4: Substantive Analytical Procedures as a Response to Significant Risks

14. There was agreement among all respondent groups that the use of technological tools may enable auditors to design and perform substantive analytical procedures that are highly precise. However, there were different views on whether substantive analytical procedures could provide sufficient appropriate audit evidence alone to respond to a significant risk.
15. Regulatory representatives commented as follows:
- There remains a distinction between test of details and substantive analytical procedures because substantive analytical procedures are based on the auditor's expectation while tests of details focus on individual items as their reference point.
 - Even when substantive analytical procedures are highly robust, it remains difficult to accept that they alone could provide sufficient and appropriate audit evidence for addressing significant risks. Distinguishing between procedures that are 'robust' versus 'less robust,' or 'sophisticated' versus 'non-sophisticated,' is challenging. Given the high stakes associated with failing to adequately address significant risks, caution is warranted if the IAASB is to change direction.
 - Questions were also asked on why the IAASB is revisiting this matter.
16. The following perspectives were shared by representatives from the profession:
- It is not realistic that substantive analytical procedures alone would be sufficient to address significant risks because robust and precise substantive analytical procedures are typically performed together with tests of details.

- Technology is a game changer, which can be used to design and perform a highly precise expectation. It could be argued that highly precise substantive analytical procedures are more effective than sample testing a few individual transactions.
- Technology could change the design and performance of substantive analytical procedures. For example, auditors can develop a highly precise expectation using external data sources.
- Some supported removing the restriction on the use of substantive analytical procedures alone to address significant risks. Substantive analytical procedures could be highly precise today with the use of technologies (e.g., regression analysis and data modelling). Although tests of details have historically been viewed as a stronger form of audit evidence, this assumption may no longer be warranted. The IAASB was encouraged to reconsider this matter, unless there is clear and compelling evidence that tests of details are specifically necessary in all cases to address significant risks.
- Some cautioned that neither tests of details nor substantive analytical procedures can provide absolute assurance.